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COMPILED BY
EDITH M. PHELPS

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EXPLANATORY NOTE

This Volume II is not a new edition of the former Handbook on this subject, but is an entirely new compilation, based on railroad conditions as they exist at the present time. The best of what has appeared on the subject has been selected to cover the history of government regulation of railroads in the United States to date, especially during the critical period of the war, and the present status of the roads under Government administration. The various arguments for and against government ownership of the roads are brought out in the Affirmative and Negative Discussions. A selected bibliography is included, limited chiefly to the literature of the past two years, altho earlier standard works have been added, and a list of bibliographies, which point the way to other material on the subject. The volume also contains a new set of briefs, and an introduction, which is a brief review of the subject as a whole. This Handbook will be useful not only to the student or debater, but also to the general reader who wishes a concise review of the subject, and to the library wishing to supply good reference material in convenient form.

April 14, 1919.

E. M. PHELPS.

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BRIEF

RESOLVED, That the United States shall own and continue to operate the railroads.

INTRODUCTION

- I. With the close of the war, we are brought face to face with the question of what shall be done with the railroads.
 - A. Unless some other plan is decided upon, they will revert automatically to the owners, in twenty-one months after the close of the war.
- II. It is generally agreed that a return to the conditions prevailing before the Administration took over the roads would be unsatisfactory.
 - A. Our system of private ownership and government regulation was not a success.
 1. Regulation by both the federal government and the forty-eight states resulted in subjecting the railroads to many needless and conflicting demands.
 2. It failed to bring about the improvements and extensions in the service needed.
 3. Railroads, shippers, investors, and the public united in demanding relief.
- III. It is suggested that the government now take over the ownership of the railroads and continue to operate them.

AFFIRMATIVE

- I. Government ownership of the railroads would remedy many of the evils of our former system of private operation and government control.
 - A. It would remove the railroads from politics and bring the brains and talent of the nation into harmony with it.

- I. Under the old system, attorneys, bankers and business men were in constant conflict with the government.
- B. Transportation could be run for service rather than for profit.
 - I. Duplication of service could be avoided in well-developed territories and extension of service provided for new localities even where temporarily unprofitable.
 2. Rate-schedules could be simplified, thus avoiding discriminations.
 3. Long hauls could be reduced and circuitous routes straightened.
 4. The amount of equipment and service and the number of offices, officials, terminals, etc., now needed, because of competition between the roads, could be reduced.
- C. It would remove the evils of over-capitalization and discrimination which are inherent in private ownership.
- D. Water transportation could be developed and would save money in the carrying of many products as ores, grain, and coal.
 - I. Many water routes that have been developed are arbitrarily held from service by the railroads to keep up rates.
- E. Government ownership would restore public confidence in the railway management.
 - I. It is largely lack of confidence on the part of the people, due to former scandals of private ownership, that has prevented increases in rates or the loans to the roads of capital for improvements.
 2. Under government ownership the necessary capital could be secured without the evil results formerly experienced by the public.

II. Many of these evils have already been corrected by the government administration of the roads.

A. It is estimated that 30 million dollars have been saved, in salaries and other expenses, by the centralizing of offices and management, consolidation of termin-

als and equipment, and reduction of unnecessary service.

- B. Long hauls have been reduced and circuitous routes straightened.
- C. Wastes in holding of cars, poor loading, etc., have been reduced, resulting in more service from the same equipment.
- D. The critical condition of traffic at the beginning of 1918, when the Government took over the roads, has been much relieved.

III. These benefits would be increased under government ownership.

- A. The present advantages of government operation would be retained.
- B. The government would not be under the obligation of rehabilitating the roads for the benefit of the owners, nor of guaranteeing to them a certain income.

IV. Government ownership of railroads is practicable.

- A. The maintaining of public highways is primarily a function of government.
 - 1. They can be operated by private management only under a franchise from the government.
- B. The railroads could be secured without hardship to the investors and at no loss to the public.

V. Government owned and operated utilities have been satisfactory.

- A. There is no demand for turning the parcel post back to private ownership.
- B. The Panama Canal has been administered satisfactorily.
- C. Government-owned railroads in other countries have been satisfactory.

VI. Government ownership of railroads is advisable for other reasons.

- A. Government railways would divert to the government treasury part of the excess profits that are reaped by private enterprise in boom times and the unearned increments due to increases in values of land and other property.

- B. The government could save money for the people by operating the roads.
 - 1. It could secure capital at a lower rate of interest.
- C. Under government ownership the short lines would benefit alike with the large railway systems.
- D. Government ownership would
 - 1. Remove the systems from the control of banking interests.
 - 2. Stabilize rates and costs of operation.
 - 3. Decrease labor difficulties.
- E. A unified government system of railways is necessary for national preparedness.

NEGATIVE

- I. Government ownership of the railroads is unnecessary.
 - A. Many of the evils complained of, as over-capitalization, discriminations, no longer exist.
 - B. No advantages could be gained under government ownership that could not be secured under private ownership with proper regulation.
 - 1. Regulation of interstate railroads could be taken out of the hands of the states and given entirely to the federal government.
 - a. The roads could be permitted to take out federal charters.
 - 2. Present restrictions on the roads could be removed to make it easier for them to secure new capital for improvements.
 - 3. Duplication of service and equipment could be avoided if the roads were allowed to pool their resources.
 - II. Private ownership and operation of the railroads is more efficient than government ownership would be.
 - A. Under private ownership
 - 1. The quality of service is better and the rates are lower.
 - ✓2. Privately-owned railroads lead in new inventions and improvements.

3. They develop new territory as rapidly, if not more so, than publicly-owned roads.
4. Staffs are better trained and promotions are based on merit.
- B. Privately-owned railroads can raise new capital as cheaply as government roads.
- C. Government ownership is extravagant.
 - i. People are careless with public money.
- D. Our railroad lines are too great to be handled efficiently as one large system.
- E. It is not private ownership itself, but our system of regulation that is at fault.
- F. Our post-office system is not managed as efficiently as it would be if a private business.

III. Government ownership of the railroads is undesirable for other reasons.

- A. It would result in a big government monopoly which would be undesirable politically.
- B. It would Prussianize our government—make it virtually an autocracy.
- C. Government ownership would extend gradually to all business—resulting in State Socialism.

IV. Government ownership of the railroads has not been successful where it has been tried.

- A. State railways rarely have been profitable.
- B. German railroads have not been as efficient as those of the United States, and rates are higher.
- C. Many of the South American republics have abandoned government ownership of railroads.
 - i. There was too much political interference.
 2. The service was poor, employees were employed needlessly, and service was duplicated.
 3. There was always an annual deficit.

V. There is little demand that the government own the railroads.

- A. Shippers, railroad men, and investment bankers are asking for the return of the roads to the owners.
- B. There is little demand for government ownership by the general public.

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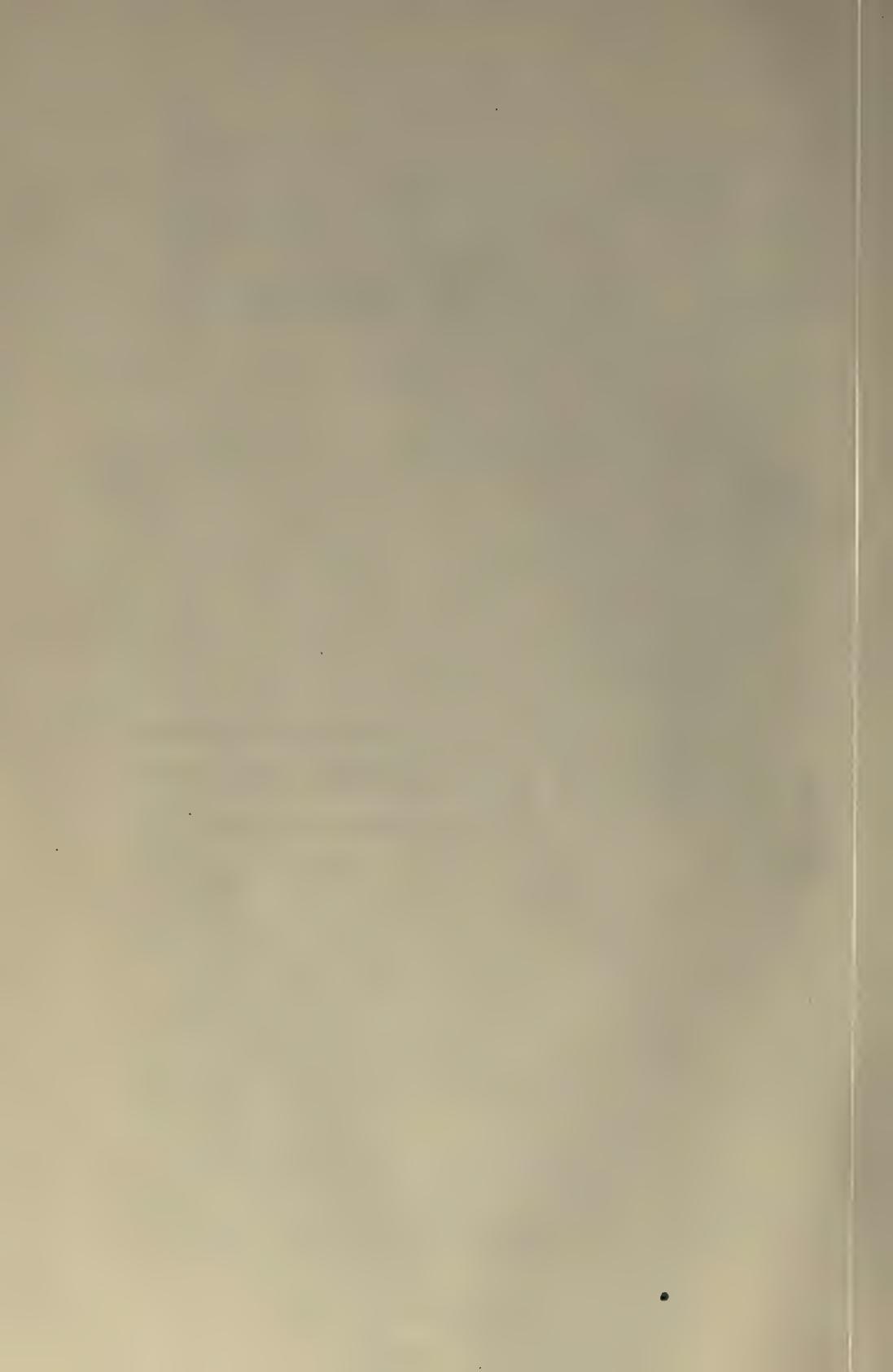
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SELECTED ARTICLES ON GOVERNMENT OWNERSHIP OF RAILROADS

INTRODUCTION

Transportation is essentially a public service, and wherever railroads have been built, upon the government has devolved the obligation of rendering aid in their construction, and of supervising and regulating their management and operation. The character of such aid and regulation varied considerably in different countries. In some, public aid was limited to the granting of the right of eminent domain in order to enable the companies to secure the necessary right of way. More often, however, governments supplemented such assistance by the purchase of railway stocks and bonds, by the loan or gifts of public lands and funds, by guaranteeing to private investors a fixed minimum return on their investments, and occasionally by engaging directly in the construction of the roads.

Regulation of the railroads varied as considerably as the nature of the aid rendered by the government. In some countries, it was limited to the barest supervision, the aim being to restrict private initiative as little as possible. This *laissez-faire* policy was originally pursued in the United States but gave way gradually to increasingly strict regulation. Many countries where private ownership of the railroads prevails, now provide for thoro regulation of every detail of operation and management and, in many cases, the roads are owned and operated by the governments.

In the United States, the roads were constructed almost entirely by private enterprise, altho public aid was very generous. States, counties, municipalities, and later the national government, rendered assistance in the shape of grants of land, loans or donations from public funds, and also in the building of the roads. Construction was pushed rapidly and even recklessly, and the necessary safeguards were not placed around the public

funds. The result was that many of the roads failed to be even self-supporting and became bankrupt, the states were forced to sell the roads to private investors or in some cases to repudiate their debts, and local investors lost a large part of their stocks and bonds to the benefit of Eastern capitalists who were able to take over the roads.

Up to this time government supervision had been of the simplest sort, but now the antagonism of local interests to the owners of the roads, the evils of over-capitalization, and the gross discriminations practised by the roads against certain localities and individuals in favor of others, resulted in a demand for thorough regulation.

In this matter the states preceded the federal government by some years, and the method of regulation generally adopted was the commission. The first form of commission to appear was the supervisory, employed originally in Massachusetts, Pennsylvania and other Eastern states. It had power only to investigate railroad practices, to report its findings, and to suggest remedial legislation. But this form of commission, while helpful, was not sufficient to combat existing evils, and, accordingly, a new type was developed in the Western and Southern states, known as the mandatory commission. It had the power, not only to investigate and report, but also to issue orders to the railways and to enforce its orders by judicial procedure; to prescribe maximum charges and to fix rate schedules. Both these types of commission gave way gradually to a newer form, the public utilities commission, having mandatory powers but with its scope extended to cover all public utilities, including canals, street railways, telegraph, telephone, gas and water companies.

The first national legislation for the regulation of the railroads in the United States was the Interstate Commerce Law passed by Congress in 1887. This law has never been repealed, but has remained in force to the present time and has been strengthened from time to time by various legislative acts. The law provided for the establishment of the Interstate Commerce Commission—a commission originally of five, now of nine, members, with mandatory powers. The original act, with its amendments, now applies to common carriers (except water), including railroads, sleeping-car companies, other private cargo-car lines, petroleum pipe lines, and telephones, telegraph, cable and

express companies. The act requires all rates to be reasonable and just; prohibits preferential rates, or undue preferences or advantages in rates or facilities; and forbids the charging of a higher rate for a shorter than for a longer haul over the same line in the same direction, when the shorter is included within the longer haul. The Commission has power to initiate investigations, to prescribe rates and regulations, including methods of accounting; and it has supervision over the issuance of railroad stocks and bonds. In one way only have its powers been restricted, when due to war emergency, it was put under the direct control of President Wilson, by the Overman Act of 1918, along with the other departments of the government.

It might be supposed that the development of such a strong federal regulating agency would tend to diminish the amount of regulation exercised by the state commissions, especially over interstate carriers, but this is far from being the case. Instead we have had regulation by forty-nine agencies, extending to every detail of the financing, management and operation of the railways. Much of it is duplicated and therefore needless; much of it is conflicting, and if not necessary to be repealed by the courts, subjects the railroads to much unnecessary expense and irritation. Often one state will pass laws discriminating in favor of its citizens, or of the railroad lines in its own territory.

The amount of legislation attempted by these forty-nine commissions alone is tremendous. It has been computed that from 1912 to 1915 alone, upward of 4000 bills affecting the railroads were introduced into Congress and the state legislatures, and of these 440 were placed on our statute books.

The result has been general dissatisfaction and complaint has been heard on all sides. Shippers complained of the rates charged and of the inability to get as much and as prompt service as needed. Railroad employees demanded higher wages and shorter hours, and as the circumstances surrounding the passage of the Adamson eight-hour law made plain, were powerful enough to gain prompt recognition of their demands. The railroads complained that they were faced on the one hand by constantly rising costs of materials and operation, increases in wages, and demands for more and better service, and on the other hand by the inability to meet these demands, either by increasing their charges or by acquiring sufficient new capital.

The general public had not forgotten the evil days of unregulated competition, over-capitalization and discriminations, and with the New Haven, and Rock Island scandals still fresh, was unwilling either to allow the railways opportunity to relieve the situation by freedom to increase charges where necessary, or to loan the necessary capital.

The difficulties of the railway companies were increased by the war which added greatly to the amount of traffic and so strained still further the already inadequate resources of the roads. So serious did conditions become that, finally, on the appeal to Congress of President Wilson, a commission was appointed to inquire into the situation. This Newlands Committee, as it was known,—a joint congressional committee of five senators and five representatives—began its sittings at Washington, November 20, 1916, and continued by the resolution of January 15, 1917, and again by the Urgent Deficiency Appropriation Act of October 6, 1917, until December, 1918.

Meanwhile the United States entered the war and the railways were confronted with the new problem of transporting troops and supplies, in the face of the already existing shortage of trackage, terminals, cars, power, etc. The greatest impediment to the expeditious handling of this problem was the fact that the railroads were not a single system of transportation. Not only did they consist of many independent roads, each seeking its own particular interests, but in many important features of their business they were even forbidden by law to act together.

To remedy the situation a Committee on Transportation and Communication was created under the Council of National Defense, with Daniel Willard, President of the Baltimore and Ohio Railroad, as chairman. At first committees were formed by the railroads to work in conjunction with the various military departments but this was soon found inadequate and, after a meeting of the presidents of the various roads in May, an executive committee was formed to act for the roads, popularly known as the Railroads War Board. The Board opened headquarters at Washington immediately, and under its leadership, a great deal was accomplished in the way of cooperation and efficiency of operation.

All these efforts, however, were still inadequate to meet the

situation and on December 26, 1917, President Wilson issued a proclamation, taking over the railroads under the authority of the Army Appropriation Act of 1916, and creating a Railroad Administration with William G. McAdoo, Secretary of the Treasury, as Director-General. This went into effect on December 28, and included the navigable water ways in addition to the railways. To define the rights and duties of the Railroad Administration and to provide for financial renumeration to the railroad companies, whose properties were taken over by the government, additional legislation was necessary; this was provided by the Act passed by Congress in March, 1918, the leading provisions of which were (1) Rate-making placed absolutely in the hands of the President with the Interstate Commerce Commission to exercise final jurisdiction in case of disagreement; (2) Government control limited to twenty-one months after the close of the war, unless the President should decide to relinquish the roads at an earlier date; (3) The owners of the roads to be compensated at a rate based on the average earnings of the roads for the three years ending June 30, 1917.

In April, 1918 the four principal Atlantic Coast steamship lines were taken over and placed under control of the Railroad Administration. A Commission was appointed to consider the railway labor problem and reported on May 10, recommending large increases in wages, which were put into effect, with certain modifications, on May 25. In May also was authorized a consolidation of the four leading express Companies under the name of the American Railway Express Company and in November this Company was taken over by President Wilson and placed under the Railroad Administration. The Pullman Company had previously been taken over.

Meanwhile the war came to an end and the question arose what was to be done with the railways. President Wilson made no definite recommendations to Congress as to the solution of the problem before his return to the Peace Conference. Director-General McAdoo, on his retirement, suggested that the period of control be extended to five years, or that the roads returned at once. This suggestion was seconded by his successor, the present Director-General Hines. Meanwhile the railroad appropriation bill before Congress went by default when Congress adjourned in March, 1919, and temporary loans are being ar-

ranged for by Director-General Hines and the railroad executives, to carry the roads until the next session of Congress, when the final disposition of the roads will undoubtedly be one of the first questions to be considered. A new increase in wages to the railway employees has also just been authorized by Director-General Hines.

Many suggestions have been made for the final settlement of the railroad problem and a number of these have been brought out in this Handbook. In the General Discussion following, articles have been selected and arranged to cover the history of American railroads to the present time, especially during the period of the war, with a number of plans and suggestions for their future ownership and management. The Affirmative and Negative Discussions relate particularly to the ownership and operation of the railroads by the Federal Government; and the bibliography offers additional material for those who wish to pursue the subject beyond the limits of this volume. In addition to the materials provided here for study, the student who wishes to keep in touch with what is taking place is advised to follow closely the articles appearing in the daily and weekly press.

April 14, 1919.

EDITH M. PHELPS.

GENERAL DISCUSSION

TEN YEARS OF RAILROAD REGULATION¹

The history of our railways is roughly divisible into three periods. The first, or formative, began when the first spike in the Baltimore and Ohio was driven by Charles Carroll of Carrollton in 1828, and ended about 1875. The second, that of competition, began about 1875, and lasted until 1906. In the first period the various lines were so short and scattered that active, wide-spread rivalry between them was impossible. Conditions so changed in the second that its most prominent feature was competition, and the efforts of the railway management to abate it. The third period, that of regulation, began when the Hepburn Rate Regulation Act went into effect ten years ago. There had been regulation before that, but it had been sporadic, temporary, or ineffective. There has been such effective regulation since that it has played the leading rôle in railway affairs.

Effective regulation having been tried for a decade, two facts stand out . . . which are highly significant. One of them is that before effective regulation began public control of railways was opposed as an unwarranted interference with private property, while to-day nobody denies the soundness of the principle except the advocates of government ownership. The other is that the specific questions to which the discussion of regulation now relates are different from those to which it related when the adoption of the policy was under consideration. For example, prior to 1906 the argument for regulation was based chiefly on the ground that it was needed to stop rebating and other forms of unfair discrimination. Now discrimination is seldom referred to and rebating is hardly mentioned.

These facts indicate truly that the ten years of effective regulation have seen great changes in the field of transportation

¹ By Samuel O. Dunn, Editor of the *Railway Age Gazette*. In *Scribner's Magazine*, October, 1916, p. 412.

and in the relations between the railways and the public. Experience has convinced many who formerly opposed regulation on principle that it is not unsound in principle. They see that it has done much good. It has abated or abolished the chief abuses at which it was aimed; and this is the main reason why some of the phases of the railway problem formerly much discussed are now seldom mentioned. Nevertheless, many who have wanted to see regulation thoroughly tried have been unable to acquire entire confidence in its ultimate success. They have seen that the machinery used has been unsatisfactory and many of the results produced harmful. It is because not only some good but also some bad results have been produced that the phases of the problem which are the most discussed now are different from those which were the most discussed ten years ago. It is this which explains why denunciations of the railways for dominating and corrupting politics and building up large shippers at the expense of small are now seldom heard, while the air is filled with complaints that the exercise of the overlapping authority of the State and national regulating commissions is causing new forms of unfair discrimination, that regulation is unnecessarily increasing railway expenses, and that between increasing expenses and rates fixed by public authorities the companies are becoming unable to earn reasonable net returns or to improve their service or enlarge their facilities enough.

The policy entered upon in 1906 was a unique experiment. The railways subjected to public control were spread over an area almost equalling that of Europe and had a mileage five times that of the railways of any other country. The method adopted was chiefly that of imposing broad statutory requirements and limitations on the companies and delegating discretionary authority to commissions to enforce them. Regulation by commission was not previously unknown. But the extent and nature of the authority and duties given the Interstate Commerce Commission, which were at once legislative, administrative, and judicial, differed from those ever delegated to any other national regulating body. There already existed a number of State railroad commissions. It seemed as if it would be desirable, when the national government commenced assuming greater control over the roads, for the States to begin to step

aside; but, immediately following the enactment of the new federal railway laws, many new State laws were passed, new State commissions were created, and the powers of those already existing were enlarged. No other country ever tried to regulate its railways by a multiplicity of overlapping laws and agencies operating independently of one another.

Nobody could have foreseen what would be the results. That all would not be good was inevitable. By now studying those which have been produced and the ways they have been produced we can get light on the best policy of regulation to follow in the future. Such study should be made, for the improvement of our policy of regulation of railways is the only alternative to government ownership.

When the Hepburn bill was under consideration discussion centered especially around four classes of evils. These were the activities of the railways in politics, the wholesale distribution of free passes, the granting of secret rebates and of unfair discriminations of other kinds, and the juggling of the finances of some companies. All of these evils were traceable to conditions which had prevailed in the formative and competitive periods of railway development. Why they have been reduced is not difficult to see.

The relation of the railways to politics long was disgraceful. In many States their lobbyists controlled nominations and elections and dictated to the legislatures. Their influence was almost as great at the national as at the State capitals. It was originally necessary for the companies to secure special legislation to obtain charters. The public was more anxious to get railways than as to the terms on which it got them, and the law makers were correspondingly compliant. The practise then developed, of employing political lawyers to obtain satisfactory charters and other concessions, was found useful to continue when the formative period was past and the problem of the railways wanted to keep. The downfall of the political influence what the railways wanted but that of keeping the governments from taking away privileges, immunities, and rights which the railway wanted to keep. The downfall of the political influence of the companies, which was practically coincident with the beginning of effective regulation, was primarily due to the general uprising of the public against political bossism and against

the activity of large corporations in public affairs. But the effects produced on the relation of the railways to politics would not have been lasting if this uprising had not led to certain legislation. One of the best provisions of the Hepburn Act was that prohibiting the giving of free passes except to specified classes of persons. Those on whom passes had been bestowed most generously were politicians and newspaper editors. Every politician who had one was more friendly or less unfriendly to the railways than he otherwise would have been. Every pass accepted by an editor had some influence on what the press said about the railways. The legislation regarding passes had immediate effects on the press and politicians. "Pitiless publicity" concerning railway affairs became universal. A flood of laws which the free pass had helped keep back was poured forth. The laws creating regulating commissions or giving them increased authority tended to complete the destruction of the political influence of the railways. Legislative bodies, with their numerous members elected for short terms to represent many localities, are likely to be influenced more by political considerations than commissions with a small number of members chosen for comparatively long terms. Consequently, legislatures are more likely to be subservient to large corporations when public sentiment is friendly to them and unreasonably hostile when public sentiment is unfriendly.

Secret rebating and other forms of unfair discrimination were results of that excessive competition between the railways which prevailed for many years. Competition between railways, unless limited by agreements or regulation, will be carried to greater extremes than between concerns of any other kind. When competition between concerns of other kinds bankrupts the weaker, it eliminates them. It may, and often does, bankrupt railways, but it cannot eliminate them. If a railway company quit business it would forfeit its charter, and could not sell its plant to be used for any other purpose. It is always cheaper to keep on competing than to stop running a road entirely. Therefore, there is no extreme to which railway competition may not go and has not gone. Throughout the period of competition the managements tried, by pooling arrangements, by agreements or contracts to maintain rates, and by consolidations to moderate their rivalries. These attempts were defeated

by antipooling and anti-trust legislation. While competition prevailed the roads naturally fought harder for the business of large than of small shippers and communities. The result was the discriminations in favor of the former. The original act to regulate commerce made it a crime for a railway to give a rebate but not for a shipper to receive it. This was unfair; and, as the giving and receiving together constituted the offense, merely prohibiting the giving was not sufficient. The Elkins Law of 1903 made it also a crime to receive a rebate. This caused an improvement. The Hepburn Act increased the penalties against rebating, enlarged the investigating authority of the Interstate Commerce Commission, and gave it power to fix maximum reasonable rates. It thus substituted regulation for competition as the controlling factor in rate-making. Competition being thus reduced, and the provisions against rebating having been made clear, comprehensive and mandatory, and being now enforced, that practise ceased.

The efforts to abate unfair discriminations in the published rates and the complaints about them have been less successful. Doubtless this is because the determination of what adjustments in rates should be made is a matter requiring expert judgment; and the commission, although more impartial, has not as much expert knowledge and judgment as the railway officers. However, the delegation to the commission of large authority over rates has done good, not only by reducing discriminations made by the railways but by assuring the public that in the making of rates the rights of all will be considered.

Our railways long have been reproached on the ground that those in control have juggled their securities to defraud minority stockholders, and have watered their capitalizations to get a fictitious basis for charging rates and earning profits. Originally the security issues of most companies did exceed their investments. Railways were speculative enterprises, and it was impossible to sell their securities at par. Furthermore, until comparatively recent years the issuance of securities in excess of actual investment was not considered ordinarily an improper business practise, and railways were not regarded as different in their nature from other classes of concerns. Before public opinion regarding the overcapitalization of railways changed, the managements adopted the "American practise" of making

many improvements from earnings and charging them to operating expenses or surplus. There was also a natural increase in the value of the properties. Consequently, when effective regulation began there probably was not much difference between the value of the railways as a whole and their capitalization. Since then there have been few cases of stock-watering, and the increase in investment has exceeded the increase in capitalization. It is significant that those who imply that stock-watering continues to be prevalent always use to illustrate the practise the cases of a few roads—Erie, Chicago and Alton, Rock Island, St. Louis and San Francisco, New Haven. Now, the condemned transactions on all these roads were begun and most of them were consummated before 1906. The increasing conservatism and honesty of railway financial management are partly due to the development of a sentiment which condemns practises formerly condoned. They are partly due to the publicity which has been given to these practises. They are partly due to regulation in several States prescribing the purposes for which and the conditions on which securities may be issued.

The foregoing shows that regulation has helped to confer some important benefits on the public. If this were the whole record it would be very satisfactory. But it is not the whole record. While regulation has helped to destroy railway domination of politics, it has been made at times and in places a pretext and vehicle for harmful political agitation and action. While it has abolished rebating and reduced some forms of discrimination, it has engendered other forms of discrimination. While it has afforded protection to other interests from the railways, it has failed to give the railways adequate protection from other interests.

To break the political power of the railways it was necessary to engender a bitter public sentiment against them. This sentiment having been created, various classes have used it to serve their own purposes. Certain unions of railway employees have long maintained representatives at the State and national capitals to promote legislation. When the labor lobby, backed by an army of voters, was confronted with a railway lobby, with its pockets full of passes and even more conclusive arguments, labor could secure only a small part of the legislation it sought. The destruction of the railway lobby was the labor

lobby's opportunity. For ten years it has secured, especially at the State capitals, almost every kind of legislation it has demanded. Some of this, such as the federal law limiting the hours of work of men in train service, has been beneficial. Some of it, such as the laws requiring extra men in train crews, has been unjustifiable. All of it has increased railway expenses, and in passing it the lawmakers have been inspired largely by political motives.

Under our present system the facilities and the rates of the railways are subject to regulation by both the nation and the States. Where there is conflict the States must yield. This is the theory. In practise it has proved impossible for a State to regulate rates and facilities within its borders without affecting interstate commerce and commerce within other States. Almost every railway operates in more than one State; many in ten to fifteen. A road's total expenses and earnings determine its total profits, and on these depend both the State and the interstate service which it can render. If one State makes its rates too low or its expenses and taxes too high, that State affects the rates which the railway must charge and the service it can render everywhere else. A State legislature or commission represents only the people of its own State. Therefore, it usually considers what will especially appeal to them more than what will tend to benefit the country as a whole. The lawmakers and commissions of some States, notably those of Texas, have been very persevering in trying to so adjust rates as to secure for their own shippers unjust advantages in the markets of their own States over those of other States. The passenger and freight rates within many States have been made lower than those within adjacent States or than the corresponding interstate rates. In this way there have been created many discriminations as unfair as those which regulation, especially federal regulation, was adopted to abolish.

The most harmful and dangerous tendency prevalent during the period of regulation has been that of railway expenses and taxes to increase faster than earnings. The decade preceding the beginning of effective regulation in 1906 was one of growing prosperity for the railways. Their traffic expanded rapidly. Their passenger and freight rates advanced slightly. There were also some advances in wages and large advances in taxes;

but the tendency of net return was upward. Since 1906 the tendency of net return has been in the opposite direction. In 1906 it took 69 cents out of every dollar of railway earnings to pay operating expenses and taxes. In 1913 the traffic handled and the total earnings made were the largest in history; but it took 73 cents out of every dollar earned to pay expenses and taxes. In 1914 there was a heavy decline in traffic and earnings; and it then took 77 cents out of every dollar earned to pay expenses and taxes. In 1906 the net return earned on the investment in the properties was 5.39 per cent; in 1913, 4.87 per cent; in 1914, 3.99 per cent.

The results of this downward trend of net return were serious. The number of miles of railway in the hands of receivers a year ago broke all records. The orders given for cars and locomotives in the five years ending with 1915 were 35 per cent smaller than in the five years ending with 1906. The new mileage in 1915 reached the lowest point since the Civil War. The retrenchments adopted were so severe that the large and important class of manufacturing concerns established to supply the railways with equipment and materials was brought to the verge of ruin. The increase in the number of railway employees was almost arrested. In the eight years before 1906 it was 74 per cent; in the next eight years, only 11 per cent. The long period of retrenchment was followed by the severe congestion of traffic and shortage of cars which marked the revival of business in the fall of 1915 and spring of 1916.

The decline in net return has been due partly to increases in taxes. When the railways were influential in politics, their taxes increased at about the same rate as their earnings. When their political influence was destroyed their taxes began to increase much faster, and between 1906 and 1914 advanced from 3.2 to 4.6 per cent of their total earnings. This increase in the rate of taxation added \$43,000,000 a year to their outgo. But the principal cause of the decline of net return has been increases of wages. In 1906 railway employees began a series of extensive movements for advances in their pay, and the total increase in their annual compensation between 1906 and 1914 was almost a half billion dollars. Of this \$369,000,000 was due to advances in the rates of pay.

The commencement of these advances in taxes and wages

was coincident with the inauguration of effective regulation. The policy of regulation adopted in 1906 was mainly the outgrowth of the conditions and developments of the preceding ten years. There had been a rapid increase of net earnings; and the policy adopted was predicated on the assumption that traffic would continue to grow, that when it grew the tendency of railway net earnings would be upward, and that the proper purposes of regulation of rates were to prevent discriminations in them and to secure the reductions in them which the increase of profits would make practicable. Consequently, when the railways, owing to increases in expenses and taxes, began to try to advance their rates, the country was filled with astonishment and indignation. When they persisted the Mann-Elkins Law was passed in 1910, giving the Interstate Commerce Commission power to suspend advances pending investigation. Meantime, both the State and national authorities were reducing rates. The total earnings in 1914 were \$50,000,000 less than they would have been if the average rates of 1906 had been maintained. Only within the last two years have the reductions in rates been arrested and some advances secured. It has been this combination of increasing wages, taxes, and other expenses and stationary or declining rates which has caused the downward tendency of net earnings.

This tendency was checked about a year ago, because, just when the managements had effected great retrenchments, there came a large increase in traffic and earnings. But while the net return earned in the year ended June 30, 1916, will be found, when the complete figures are available, to have been much larger than that earned in 1914 or 1915, it probably will also be found to have been less than that earned ten years ago or even than in 1910 and 1913. Besides, railway employees are again asking and, in many cases, securing large increases in wages, and the advances in taxes continue. The forces which have caused net return to decline are still in operation, and, unless arrested, will produce the same results as heretofore.

FAILURES AND POSSIBILITIES IN RAILROAD REGULATION¹

It must be said that there are clear and definite grounds for complaint against both the system of private operation and the system of public regulation as they have hitherto existed. The outstanding fact about the system of private management is that it is inefficient because it has failed to achieve operating unity; it was for the purpose of securing a unification of the railroad line that the government assumed control of railroad operation. There is a general impression that the laws of the country have prevented unity of operation among the carriers, and a consistent attempt has been made to lay at the door of the government the failure of the carriers to coöperate in the use of their physical equipment. This impression is based on false assumptions. There is no federal law, and very few state laws, which stand in the way of coöperation among the carriers in the use of their facilities; the common use of cars, passenger terminals and tracks, is practised extensively, and it involves no violation of the law. The railroads have failed to "get together" merely because, in everything except the fixing of rates, the railroad business is a highly competitive business. The unification of terminal facilities and tracks require that some carriers surrender certain monopoly advantages of location which they have long possessed, and such a surrender no company has ever been willing to make. There is hardly a large city in the country which has not provided a battleground for railroad strategists intent upon seizing and perpetuating the exclusive control of a favorable location. Railroad companies have captured and held with tenacious grasp the waterfront of our chief seaports and, assuming a dog-in-the-manger attitude, they have often failed to develop the property themselves and have forbidden the encroachment of others. Bodies of railroad workmen have fought pitched battles over choice bits of territory; millions of dollars have been expended in the defeat of aggressive competitors; public service has been a secondary consideration to monopoly

¹ By T. W. Van Metre, Assistant Professor of Transportation, School of Business, Columbia University. In *Annals of the American Academy*, March, 1918, p. 1.

privilege. The inefficient and wasteful terminal system in such great cities as New York, Philadelphia and Chicago have been enduring and impressive monuments to the lack of railroad unity. Sufficient money was wasted in the combat waged by the Wabash Railroad to enter Pittsburgh to construct a great unified terminal at that choked gateway from which it was necessary recently to divert all shipments of through freight.

It is useless to assume that the repeal of the anti-pooling clause of the Act to Regulate Commerce and the modification of the Sherman Law would pave the way for voluntary railroad unity. Those laws have not stood in the way of the operating unity sorely needed at many terminals, and the mere repeal of those laws will not affect the situation. Persons who place dependence in such legislative changes forget that former railway pools were organized solely for the purpose of controlling rates; pools were never intended to facilitate operating unity, and they never had such an effect. Railroad managers now accomplish, through informal rate agreements, all that they ever sought to accomplish through pools and formal rate agreements, and they are consequently entirely indifferent to the proposed changes in the law. Indeed the more astute managers are averse to these particular changes, which, if made, might create expectations on the part of the public which they have no inclination voluntarily to fulfill. There is no doubt that the formation of pooling agreements would make it easier for the railroad companies to effect the financial arrangements necessary to a plan of unified operation under private ownership, and if private operation is to be resumed it is desirable that pooling should be permitted; but the mere toleration of pools and rate agreements will not lead to the voluntary unification of physical facilities so long as railroad managers desire to continue their hold on their particular monopoly advantages.

In recognizing the fact that railroad managers have not gone as far as they might have done in improving the railroad service through unified operation we must bear in mind that scant measure of blame can attach to them for their failure. We do not expect a business man meekly to share his strategic advantages with every struggling rival. The ideal of American business has been competition, and the existing railroad laws are based upon the theory that railroads should be forced to com-

pete with one another. Far from compelling coöperative action among the carriers in the use of physical equipment, or for any other purpose, the law makers of the country have held steadfastly to the ideal of competition, endeavoring even to prevent railway coöperation in rate-making, a form of coöperation which is virtually indispensable to the satisfactory conduct of the railroad business. In pursuing this theory our legislatures have burdened our statute books with laws, designed ostensibly for the protection of the public, which have been probably a greater obstruction to the development of adequate railway service than the unfortunate policy of selfishness pursued by the railroad managers. Public regulation has scored as many errors, both of omission and commission, as has private operation.

The dual system of railroad regulation by state and federal authority is without doubt cumbersome and wasteful, and it has been a prolific source of conflict and misunderstanding. The state railroad and utilities commissions are not a conspicuous success from the standpoint of personnel. They are composed chiefly of lawyers whose main interests lie, if not in politics, in legal rather than in economic problems. Commissions of several states have been used as tools for disreputable political tactics; that they exist for the purpose of safeguarding one of the most vital business interests of the country seems to have eluded the understanding of not a few appointing officials. Ill-considered and unwise laws for railroad regulation have been passed with too great frequency; and the powers vested in commissions have often been used with injurious effects to the carriers, or just as often have remained unused to the detriment of the general public.

Underlying the entire bill of particulars against the present system of regulation, of which these counts are probably the most important, is the fact that virtually all legislation enacted for the purpose of controlling the practices of the railroad corporations is one-sided in character; it evidences a commendable effort to protect the shipping and travelling public from unfair treatment by the carriers, but it shows little evidence that the legislatures thought it would ever be necessary that special precautions be taken to safe-guard the interests of the railroads. This situation, unfortunate though it be, is the quite natural result of the offensive attitude formerly assumed by the railroad

interests. It was once a well-nigh universal custom of railroad officials to justify or to condone the flagrant abuses of the transportation service, and it was their habit strenuously to combat all attempts made by legislative bodies to render their objectionable practices impossible. Total disregard by the carriers of the interests of the public which they served bred legislation in which little effort was made to consider the welfare of the railroads. Laws were of necessity fashioned as cudgels with which refractory selfish interests could be driven to a consideration of the rights of others and to a realization of their own duties and responsibilities; the stubborn opposition which the railroad interests exhibited to all legislation was chiefly responsible for the retaliatory character which the law assumed. The Act to Regulate Commerce, as amended, provides easy methods for the reduction of rates, and supplies only obstacles to the increase of rates; the Interstate Commerce Commission was definitely intended to be primarily a rate-reducing organization.

The necessity of using punitive methods in the past renders difficult the problem of forming a constructive program for the future. The old feeling of bitter resentment against the railway official of the "public be damned" type has not been eradicated. The average shipper looks with more complacency on rates which provide no net revenue for the carriers than upon rates which are ruinous to his own business. He has just as much difficulty in seeing that a reasonable rate involves the consideration of the welfare of the railroads as the railroad managers once had in seeing that reasonable rates involved a consideration of the welfare of the public. The old policy of brutal exploitation is having its natural, if undesirable, results.

A conspicuous effect of the new order has been the confession of former faults on the part of railway officials, a profession of repentance and a bid for forgiveness. All public regulation was once anathema; today regulation—"of the proper kind"—is accepted with apparent welcome. The almost universal spirit of willingness to receive guidance by public authority and the unanimous desire to let bygones be bygones speak well at least for the influence of past legislation with respect to moral regeneration.

It is an unfortunate thing that to many ears the professions of willing acquiescence in a new dispensation should smack

strongly of deathbed repentance. "When the devil was sick . . ." While it is unquestionably true that the majority of railroad officials have seen a light, certain facts indicate in some quarters a want of sincerity, a lack of frankness, which, coupled with occasional regrettable lapses of conduct, tend to keep alive the old distrust and suspicions and to weaken belief in protestations of reform.

It would be easier to forgive and forget the excesses of railway capitalization indulged in a generation ago if, in the absence of proper administrative regulation, all railway officials would refrain from giving demonstrations of a present aptitude for similar excesses. The examples within the past few years of wanton wrecking of sound railroad financial structures for the purpose of enriching small groups of unscrupulous speculators have placed upon the record ample evidence that some of the trustees in charge of the transportation service are unfaithful to their trust and unfit to have a voice in the direction of public service. It is true that reputable railroad managers have condemned the acts of the speculators; but it is not customary for the public at large to discriminate carefully between the good and bad elements of any particular class.

Moreover virtually all railroad managers have endeavored to reap some advantage from the effects of the financial wrecking. A common feature of the widely published appeals for increased rates has been to call attention to the unprecedented mileage of railroad in the hands of receivers. It was widely advertised in 1915 that there was a greater mileage of line under the control of receivers than at any previous time in the history of the country, and this fact was earnestly presented as good evidence of the need for increased rates. A very brief analysis showed that two-thirds of the line in the hands of receivers had reached bankruptcy because of the shameful financial operations of the speculators who had secured control of the companies; the excessive mileage of insolvent railroad presented a much stronger argument for regulation of capitalization than for upward revision of freight rates.

Lapses of conduct have not been confined to buccaneering tactics in finance. The annual reports of the Interstate Commerce Commission record indictments and prosecutions for offenses which show every indication of having been wilful and

deliberate infractions of the law. The persistence of attempts to evade or to violate the provisions of present laws serves to discourage disinterested individuals who otherwise would desire to help the cause of the railroads. Other acts have a similar effect. Just as one begins to feel that the railroads are an object of persecution when a threatened strike brings about the enactment of a wage law, one's sympathy is subdued by the lack of candor shown by the railroad officials in waiting until the day after election to begin a test of the law in the courts.

Fallacious arguments and statements containing half truths weaken rather than help the position of the carriers. A statement widely circulated last year (1917) called attention to the fact that from 1907 to 1915 about five billion dollars was added to the capital account of the railroads, and that net income was thirty-three million dollars less in the latter year than in the former. From which it was deduced that the five billion dollar investment yielded a return that was thirty-three million dollars less than nothing, it being the apparent design to create the impression that because of the niggardly policy of the government this huge investment was in immediate danger of becoming a total loss. No mention was made of the fact that the year 1907 was an exceptionally prosperous year for the carriers, freight traffic being greater even than in the two succeeding years, nor of the fact that railway business in 1915 was at a relatively low ebb, traffic having been considerably less than in either of the two preceding years. Nor was it told that with the great increase of traffic in 1916 the rate of return on investment in Class I railroads (those having annual operating revenues in excess of \$1,000,000) was the greatest ever recorded. It might have been explained, too, that a large part of this investment, contributed chiefly from earnings, went to absorb the "water" of former years, which was always made to appear like real money in the investment accounts published before 1907. It is true that railroad income has showed a tendency to decline in recent years, but unqualified statements of this kind misrepresent the real conditions. They do more to frighten investors than does an adverse decision on an application for rate increases. In fact statements of this nature have aroused the suspicion that the carriers, by deliberately misrepresenting their condition, have endeavored to depress their own financial credit in order that their palpable

inability to borrow needed funds on reasonable terms would bring an increase of rates which would enable them to pay for improvements out of earnings. Groundless as such a suspicion certainly is, its existence shows how it is possible for the railroads to arouse public opposition by the very means they employ to win public sympathy and support.

It is highly desirable if private operation of railways is to be resumed that the retaliatory character of present railroad laws be eliminated, but such a desire will be difficult of attainment unless railroad authorities definitely abandon all lines of conduct which tend to keep alive the retaliatory spirit of the public. Misrepresentation of facts, violations of the law, and stock-jobbing must be halted if the confidence of the people is to be earned, and the desire to receive equitable treatment must be matched with evidence of willingness to act fairly. To the credit of railroad officialdom it must be said that a majority is evincing a spirit which promises well for the future. Unqualified abuse of present regulation is giving way to thoughtful discussions of its advantages and disadvantages; federal regulation of the issue of securities is advocated here and there; an honest endeavor is being made to suggest modifications in the present system of regulation which will provide for conserving the interests of the transportation system without depriving the public of adequate protection against unfair treatment.

On the other hand, the public is greatly in need of education. People have too long been led to believe that the interests of the railroads are diametrically opposed to all other business interests; they should be made to understand that the maintenance of the transportation system in an unimpaired state is of vital importance to the economic fabric of the nation, that the railway service should continue to develop and expand, and that existing obstacles to a healthy growth of transportation enterprise should be promptly removed. If suspicion and hostility can be replaced on all sides by a spirit of mutual confidence and tolerance the work of securing needed changes will be easy.

FAIR PLAY FOR THE RAILROADS¹

At the root of railroad inefficiency lies the present system of forty-nine varieties of regulation. Until radical steps are taken to remedy this grotesque policy, our railroads will remain in an unhealthy condition, and the taint of their ill health will be felt through all the channels of industry. We cannot have a constructive national railroad policy until we abolish state lines in transportation, as we have in every other business and throughout our social life generally. Before the Union was formed the various States conducted an active commercial war against one another by means of tariff duties, embargoes, etc. Under state regulation the States still carry on industrial warfare through the railroads. In railroad matters, after nearly a hundred and thirty years of union, we are still a nation of independent, squabbling colonies.

A curious light was thrown on this condition in connection with the Shreveport rate case. Texas, in order to keep Louisiana merchants from competing in its markets, had fixed a number of rates within the State applying between points of production and jobbing centers and markets in the direction of the Louisiana line. These rates were substantially lower than the interstate rates from Shreveport, Louisiana, to the same Texas points of consumption. The United States Supreme Court sustained the Interstate Commerce Commission in raising the Texas rates so that Louisiana business men could get a square deal.

Thereafter Senator Shepard of Texas introduced a bill in the Senate to abolish the doctrine of the Shreveport case. In a hearing on this bill it developed that while Louisiana was protesting against rate discrimination on the part of Texas, the city of Natchez, in Mississippi, was making a similar protest against the action of Louisiana in fixing rates which excluded the business men of Natchez from the Louisiana markets. Moreover, one of those who appeared in favor of the bill was Judge Prentice, chairman of the Virginia railroad commission, which was at that time complaining that the state rate-fixers in North Carolina had discriminated against Virginia cities.

¹ By Harold Kellock. In the *Century Magazine*, February, 1917, p. 578.

In short, an appalling condition of interstate warfare was revealed that was hurting business generally and killing railroad development.

Nineteen States have laws regulating the issue of securities of all railroads doing business in the State. The first stock-and-bond law was passed in Wisconsin. At first the Wisconsin law imposed a fee of a dollar a thousand on all new capitalization. This was changed to a nominal fee to cover the expenses of the state commission in properly passing on applications. Illinois adopted a law based on the Wisconsin statute, but retaining the dollar-a-thousand fee. Missouri, meanwhile, adopted a sliding scale ranging from a dollar down.

In 1914 and 1915 the St. Paul Company, a Wisconsin railroad corporation, had to pay out in such fees to the State of Illinois \$125,000. On a single issue of thirty million dollars, to be spent principally in improvements in other States, the company was forced to pay \$30,000 to Illinois and \$10,500 to Missouri. If the twelve States through which the St. Paul road runs had laws similar to Illinois, the road would have had to pay \$1,500,000 in two years for the privilege of making necessary improvements and extensions.

In 1914 the New York Central Company consolidated the securities of all its lines, a rearrangement involving \$300,000,000. Before effecting this consolidation the road was compelled to pay a fee of \$300,000 to the State of Illinois, under the dollar-a-thousand law, though no new capital was involved in the matter, and of the 3700 miles of New York Central lines only 141 miles lie within Illinois. But the exaction did not stop there. As soon as the new arrangement went into effect, the Central was ordered to pay, under a law passed in 1913, an additional sum of \$250,000 for all stock securities authorized. The railroad sought an injunction against this double tax, and the matter is still in litigation. Virtually the levy is a tax of \$3900 a mile on the Central's line in Illinois.

In addition to the amount assessed in Illinois, the Central was compelled to pay \$300,000 each to Ohio and Indiana, in connection with the reorganization, and \$150,000 to Michigan. Its little adventure in rearranging its securities cost the railroad upward of a million dollars merely to secure the approval of these four States.

In 1914 the Southern Pacific attempted to put out an issue of two-year notes. To do this it had to get permission in five States, California, Arizona, New Mexico, Texas, and Louisiana. Arizona refused to grant permission unless the road agreed to spend a certain amount of the money in the State. This the railroad could not do. After a long delay the road gave up, and issued one-year notes, for which it did not require permission under the Arizona law. The change was made at a loss of \$250,000.

In Texas repressive laws have killed all railroad development. Most of the roads are bankrupt. The state valuation act has resulted in values fixed by the state commission, which, in the words of one railroad man, "are so décolleté that no decent citizen can view them without blushing." Instances are cited of roads, costing \$60,000 a mile to build, valued at \$40,000 and \$45,000. The Texas railroad commission has ruled that no railroad may issue new securities if the total value of its stocks and bonds exceeds "the approved valuation of the completed railroad." It is little wonder that Texas is a railroad graveyard.

A few years ago the Wabash road attempted an issue of preferred stock. For this, under the constitution of Missouri, the unanimous consent of all stockholders was required. Through this provision a single stockholder, with recently acquired shares, was able to hold up the issue and prevent the whole plan of financial reorganization.

The rate muddle with forty-nine States indulging in rate-fixing, competing with one another and conflicting with the rate-fixing powers of the Interstate Commerce Commission, is productive of some of the most vexatious and costly litigation the railroads have to bear. In some States railroad managers complain that they have to spend from a quarter to over a half of their working hours in court or appearing before various commissions. In some States railroad agents have been arrested because they would not accept rates established by the state legislature, which had been enjoined by a Federal Court. In other States, in similar circumstances, indictments have been brought against the railroad seeking the injunction. Alabama reduced rates and thereafter decreed that any railroad operating in the State which sought to question in court proceedings

the acts of the legislature or the state-railroad commission should thereupon forfeit its license to operate in the State.

An example of freakish legislation is that which requires the Missouri, Kansas & Texas Railroad to maintain general offices, open for business, with transfer-books, etc., in each of the three States in which it operates. This useless triplication costs the railroad, which happens to be bankrupt, half a million dollars a year. An old law of 1872 requires the Poughkeepsie Bridge Railroad Company to keep a tug on the Hudson River to assist tows. Under this hoary statute the New Haven Road, which now controls the bridge, is compelled to spend \$450 a month to charter a tug which wanders about with nothing to do. Some States have blue laws forbidding the movement of freight on Sunday, with the exception of solid through trains and a few emergency classifications.

The state laws affecting equipment and operation are another source of waste and confusion. Thirty-seven States have diverse laws regulating locomotive bells, thirty-five have laws about whistles, thirty-two have headlight laws. The bells required range from twenty to thirty-five pounds, and one State insists on an automatic bell-ringing device. The five-hundred-candle-power headlights that are good enough for Virginia may be used across the border in Kentucky, but not in North Carolina, which will not permit lights under fifteen-hundred candle-power, or in South Carolina, which holds out for ten-thousand candle-power or a light strong enough to discern a man at eight hundred feet. In Ohio and Michigan headlights must reveal objects not less than three hundred and fifty feet away, but in Nevada they must show at a thousand feet. Other States fix their requirements in watts merely.

The harmless, necessary caboose has come in for a great deal of contradictory regulation. Most States are content with two-wheel trucks on cabooses, but fifteen require four-wheel trucks. Though many cabooses are eighteen feet long, thirteen States have passed laws fixing a minimum length of twenty-four feet, while Missouri insists that they be twenty-eight feet long, and Maine twenty-nine feet. Eight States have fixed the requisite width of caboose platforms at twenty-four inches, but Illinois and Missouri require thirty inches, while in Iowa and Nebraska respectively eighteen and twenty inches are sufficient.

In some of the States cabooses must be equal in constructive strength to a 40,000-pound capacity freight-car; in others to a 100,000-capacity freight-car.

One State has solemnly decreed that there must be a cuspidor between every two seats on passenger-trains; an adjacent State forbids cuspidors as vulgar and unsanitary. One State requires screens in the windows of passenger-coaches, and an adjoining State forbids screens.

Such instances could be multiplied. There is just as much diversity in the laws affecting operation as in those on equipment. For instance, five States require extra brakemen on freight-trains of over fifty cars, two on trains of over forty cars, in three States the train length is fixed at thirty cars, and in three at twenty-five cars. In Illinois and Michigan no extra men are required, but in Indiana they are. The Michigan Central has to carry its extra brakemen a short distance in Indiana to the Michigan or Illinois state-line, and there they are dropped with nothing else to do.

An instance in point are the so-called full-crew laws passed by the States. Any discussion of the full crew, or, as the railroads call it, the extra-crew principle, is not germane to this article. But it is plain that this is a question that should be investigated thoroughly and decided on a national basis. Up to the present time twenty States have adopted full-crew laws and twenty-one have rejected them. Compliance with the laws enacted costs the railroads over four million dollars a year. The burden of this expense falls not only on the traffic of the twenty States that have enacted full-crew laws, but on all States served by the railroads that also serve the twenty States.

Full-crew laws, for example, cost the Pennsylvania Railroad \$550,000 a year in Pennsylvania, \$180,000 in New Jersey, and \$120,000 in New York. The aggregate amount, \$850,000, representing five per cent. on \$17,000,000 of capital, affects the Pennsylvania's service in every State in which it runs westward to the Mississippi River. It can readily be seen that such an arrangement is distinctly unfair and discriminatory.

Fifteen States have laws designed to secure preferential treatment for their freight by prescribing a minimum movement for freight-cars. Several of these require a minimum movement of fifty miles a day, though the average daily move-

ment throughout the nation is only twenty-six miles. One State imposes a penalty of ten dollars an hour for the forbidden delay. Though under the Federal law there is no demurrage penalty for failure to furnish cars to a shipper, several States have penalties running from one dollar to five dollars per car per day. The result is that the railroads are compelled to discriminate against interstate commerce and against commerce in the States that have no demurrage penalties.

One by-product of all this chaotic regulation has been an increase in ten years of eighty-seven per cent. in the number of general office clerks employed by the railroads and an increase of nearly 120 per cent. (over \$40,000,000) in the annual wages paid to them. During this period the gross earnings of the roads increased only fifty per cent. In the fiscal year of 1915 the railroads were compelled to furnish to the national and state commission and other bodies over two million separate reports, and if duplicates are included, the total is swelled to three million.

The cost of state regulation to the railroads, to the shippers, to the public generally, is a staggering sum. It runs into hundreds of millions of dollars a year. The expense of merely maintaining the various state railroad commissions must be close to \$50,000,000 annually.

FEDERAL CONTROL OF RAILROADS IN WAR TIME¹

In all the principal nations of Europe, the railroads are being operated during this war by the government.

In England, prior to the present war, private capital had always owned and operated the railroads. On August 4, 1914, the very day on which England declared war against Germany, the British government took over the operation of all the railroads. A committee of which a Cabinet member is the general chairman manages the railroads but their actual operation re-

¹ By Max Thelen, President of the California State Railway Commission. In *Annals of the American Academy*, March, 1918, p. 14.

mains in the hands of the former operators. All government traffic is carried free and no account thereof is kept. The government guarantees to the holders of railroad securities the same net revenue as the railroads earned in 1913, the last complete year before the war. If there is a surplus, the government keeps it and if there is a deficit the government meets it out of the treasury.

In France, prior to the war, one railroad was owned and operated by private capital. Upon the outbreak of the war the French government immediately took over the operation of all the railroads.

In Germany and Italy, the railroads were owned and operated by the government prior to the outbreak of the war. In these countries public ownership and operation have continued during the war.

In the United States, with the exception of the Panama Canal Zone and approximately 250 miles of railroad in Alaska, our railroads have been owned and operated by private capital. Prior to December 28, 1917, the United States was the only nation of any consequence which during this war continued the ownership and operation of its railroads by private capital.

On August 29, 1916, more than seven months prior to the entry of the United States into the world contest, this government cleared the way for the operation of our railroads directly by the government, if such course should become necessary in war time. On that day President Wilson signed the Army Bill, which bill provided in part as follows:

The President in time of war, is empowered, through the secretary of War, to take possession and assume control of any system or systems of transportation, or any part thereof, and to utilize the same to the exclusion, as far as may be necessary, of all other traffic thereon for the transfer or transportation of troops, war material and equipment, or for such other purposes connected with the emergency as may be needful or desirable.

This is the provision of law on which President Wilson particularly relied in issuing his proclamation of December 26, 1917. Prior to this proclamation, the power conferred by this sentence of the Army Bill of 1916 had been exercised by the government with reference to only one small railroad in New Jersey.

On April 6, 1917, the Congress of the United States declared that a state of war existed between the United States and Ger-

many. On the preceding day, Franklin K. Lane, Secretary of the Interior, introduced and had passed by the Council of National defense the following resolution:

Resolved, That Commissioner Willard be requested to call upon the railroads to organize their business so as to lead to the greatest expedition in the movement of freight.

Acting in accordance with this resolution, the principal railroad executives of the country met in Washington on April 11, 1917, and resolved that during the war they would coördinate their operations in a continental railway system, merging during such period all their merely individual and competitive activities in the effort to produce a maximum of national transportation efficiency. The direction of the continental railway system thus organized was placed by the railroads in the hands of the executive committee of the Special Committee on National Defense of the American Railway Association. This executive committee was also known as the Railroads' War Board.

Under this resolution, the railroads of the United States continued until December 28, 1917, to be operated under private ownership and private management.

On May 29, 1917, President Wilson signed an act of Congress giving to the Interstate Commerce Commission jurisdiction over railroad cars used in the transportation of property by any carrier subject to the provisions of the Interstate Commerce Act. The Interstate Commerce Commission thereupon created a Division of Car Service. Authority with reference to car service was also claimed and exercised by a committee of the railroads known as the Committee on Car Service of the American Railway Association, and by the War Department, the Navy Department, the National Food Administration, the National Fuel Administration and the Shipping Board.

While the Interstate Commerce Commission was thus granted all the necessary authority to act, the Commission has thus far issued no order under the car service statute and has been content to permit questions of car service to be disposed of largely by the railroads' own committee on car service. The fact that at least six separate and distinct authorities, five governmental and one private, assumed jurisdiction over the question of car service of course resulted in great confusion and inevitably de-

manded that the entire matter be placed in charge of a single responsible authority.

On August 10, 1917, President Wilson signed an act of Congress making it unlawful by physical force or by threats of physical force to obstruct or retard the movement of cars or trains engaged in interstate or foreign commerce. The same act authorized the President, whenever he may find it necessary for the national defense and security, to direct that such traffic as, in his judgment, may be essential to the national defense and security, shall have preference or priority in transportation. The President is authorized for this purpose to issue orders either directly or through such person or persons as he may designate for that purpose or through the Interstate Commerce Commission. . . .

The reason for the enactment of the Priority Statute was the frank statement of the railroads that they would be unable during the war under their existing organizations to carry all the traffic which might be offered for transportation and their desire that some legal method might be provided by which priority or preference in transportation might be given to the most essential commodities.

Special War Problems

Having sketched the organization effected by the railroads and the official action taken by the government prior to the proclamation of December 26, 1917, I shall now address myself to a few of the more important problems with which our railroads were confronted as the result of the war.

In this connection I shall refer first to the car shortage problem, then to the financial condition of the railroads and then to the difficulty of securing labor and equipment.

CAR SHORTAGE

From the nation's point of view, the most serious problem with which the railroads have been confronted is their growing inability to transport the nation's traffic. Car shortage is not a new phenomenon. It existed in the United States prior to our entry into the war. A serious car shortage existed in the fall of 1912. During the latter part of 1916 and the early part of this year the car shortage situation, as is well known, was acute.

The car shortage which existed prior to our entry into the war has been accentuated by it. The congestion of terminal facilities, the requisitioning of coastwise shipping by the federal government, the tremendous increase in the number and output of industries engaged directly or indirectly in the manufacture of materials and supplies used in war, and the transportation of men and materials to and from our army cantonments have all served to increase the difficulties encountered by the railroads in seeking to transport the nation's traffic.

Active coöperation between the railroads, the shippers and the public authorities materially increased car efficiency. . . .

The net result of the combined activities of the railroads, the shippers and the public authorities was stated by the Railroads' War Board to be an increase in the efficiency of the existing equipment amounting to approximately 15 per cent. In other words, after the entry of the United States into the war, practically the same amount of railroad equipment handled approximately 15 per cent more traffic than was handled before the war.

For a while, the reports on unfilled car requirements, as published by the railroads, showed apparently a great improvement in the situation. The car shortage, as shown by these reports, decreased from 148,627 cars on May 1 to 31,591 cars on September 1. However, by October 1 the car shortage increased to 70,380 cars and by November 1 to approximately 140,000 cars and subsequent to November 1 the situation continued to grow worse. Under these conditions, more drastic suggestions than any theretofore made were offered in an effort to meet the situation. Dispatches from Washington indicated that the railroads supplied to Judge Lovett and to Fuel Administrator Garfield a list of 525 commodities the transportation of which was regarded by the railroads as least essential and it was suggested that an order might shortly be made by Judge Lovett providing that the transportation of such commodities should cease in favor of arms and munitions, coal, food and other absolutely essential commodities.

Coming close on the heels of these dispatches, the railroads east of Chicago agreed to pool all their facilities in an effort to provide greater transportation efficiency. They agreed to pool their shops, coal and other supplies; to pool and redistribute all open top freight cars; to divert traffic from congested railroad

lines to open routes, and to ask for a rearrangement of the transportation of coal from mine to market. These matters all seem to be covered in the agreement made by the railroads on April 11, 1917, but were not undertaken by the railroads until the latter part of November and then only in eastern territory. By reason of the anti-pooling section of the Interstate Commerce Act, the agreement of the railroads could not and did not contemplate the pooling of earnings.

After eight months of effort, the car situation was worse in the latter part of December than it was when the United States entered the war and it was clear that measures more drastic than any theretofore taken would have to be applied if the nation's essential transportation needs were to be supplied.

RAILROAD FINANCES

Railroad finances presented another important and serious war problem.

Prior to the entry of our country into the war, prominent railroad executives made the statement that the railroads needed one billion dollars yearly for at least ten years for the construction of additions, betterments and extensions and to enable the railroads to keep up with the country's requirements for increased terminal facilities, freight and passenger equipment, double tracks and other railroad facilities. I shall not take time now to consider why these necessary improvements were not made by the railroads and why it has been difficult or impossible for many of them to secure the necessary funds. Suffice it to say that the requirements for additional construction and facilities which existed prior to the war were strongly accentuated by the war. During the war, more than ever, the railroads need additional cars, additional locomotives and additional terminal facilities. How could they secure the necessary funds?

The normal method of securing funds for capital expenditures is the sale of securities. During the war, however, it will be practically impossible for the railroads to secure large amounts of additional capital by the issue of their securities on their own credit and their sale to the investing public in competition with liberty bonds and other government securities.

As the war progressed, it became increasingly evident that the railroads would be unable on their own responsibility to meet

the war's imperative requirements for additional terminal facilities, double tracks, cars and locomotives.

LABOR AND EQUIPMENT

One of the most serious problems with which the railroads were confronted as a result of the war was the necessity of securing enough labor to maintain their way, structures and equipment in safe and serviceable condition. The call to the armed forces of the nation and the competition of other industries have seriously depleted the supply of labor available to the railroads and they have no effective means to replenish the supply. Likewise, it became increasingly difficult for the railroads to secure the necessary equipment, materials and supplies. Locomotives and cars ordered by the railroads last summer have not been delivered and there seemed no reasonable prospect for their delivery before the expiration of many more months.

Solution of Problem

As the fall of 1917 advanced, it became more evident, day by day, that the nation's railroad war problem could not be satisfactorily solved under the existing system and that a radical change was imperatively required to prevent a complete break-down of the nation's transportation system.

Report of Interstate Commerce Commission

In view of these conditions, the Interstate Commerce Commission on December 1, 1917, filed with the Senate and the House of Representatives a special report on transportation conditions as affecting and as affected by the war.

The Commission said in part:

Since the outbreak of the war in Europe, and especially since this country was drawn into the war, it has become increasingly clear that unification in the operation of our railroads during the period of conflict is indispensable to their fullest utilization for the national defense and welfare. They must be drawn, like the individual, from the pursuits of peace and mobilized to win the war. This unification can be effected in one of two ways, and we see but two.

The Commission then stated these two ways. The first is operation as a unit by the carriers themselves, requiring the suspension during the war of the anti-pooling section of the Inter-

state Commerce Act, a modification of the anti-trust laws in so far as railroads are concerned and loans to the railroads by the government for capital purposes. The second alternative is operation as a unit by the President as a war measure.

Commissioner McChord filed a separate report in which he holds that "the strong arm of governmental authority is essential if the transportation situation is to be radically improved."

That continued private operation of the railroads by the carriers themselves, being the first alternative suggested by the Interstate Commerce Commission, would not solve the problem seems clear for a number of reasons.

First, private operation of the railroads is in its very nature incompatible with war needs. Under private operation, each railroad very naturally seeks to gain all possible traffic so that it may be able to pay interest on its bonds and notes and, if possible, dividends on its stock. The price of failure to secure sufficient traffic is bankruptcy. On the other hand, while the nation is at war, traffic should be moved with an eye solely to the greatest efficiency in helping to win the war. The most efficient operation of the railroads as a war agency may require that traffic be diverted entirely from one railroad whose terminals are blocked to another whose terminals are open; that traffic be diverted in whole or in part from one railroad to another railroad which can be more economically or efficiently operated; that one of two parallel, competing lines be operated solely for west-bound or north-bound freight and the other for east-bound or south-bound freight, or vice versa; that certain railroads stop carrying passengers and that others stop carrying freight; and that any number of other acts be done all of which will take traffic away from one railroad and give it to another and thus interfere with railroad earnings. Private operation in its very nature can not solve these problems. Government operation can.

Second, private operation can not during the war secure the funds imperatively needed by the railroads for additional capital expenditures.

Third, private operation can not during the war secure an amount of labor sufficient to maintain railroad properties in safe and serviceable condition, nor can private operation secure with sufficient promptness all the necessary equipment, materials and supplies.

Hence it appeared quite clearly that the nation would be driven to the alternative of direct operation by the government itself.

President Wilson's Proclamation

By his proclamation of December 26, 1917, President Wilson took possession and control of all railroads and shipping owned or controlled by them, engaged in general transportation, whether operated by steam or electricity. Street railways and electric railroads commonly known as interurbans are for the present excluded from government operation.

THE FEDERAL CONTROL ACT¹

Acting under the Army Appropriation Act of Aug. 29, 1916, the President took over the railroads in his proclamation of December 26, 1917 (A.Y.B., 1917, p. 533). It was deemed necessary, however, to enact further legislation both because the expenditure of funds has not been authorized and because certain definitions of powers and procedure were regarded desirable. The principal provisions of the Railroad Control Act of March 21, 1918, are as follows:

I. Each line taken over was guaranteed amounts not exceeding its average annual railway operating income for the three years ended June 30, 1917. In computing such railway operating income it was specifically provided that debits and credits arising from equipment rents and joint-facility rents shall be included, but that those arising from the operation of street electric passenger railways, including interurbans, such as are at the time of agreement with the railroad not under Federal control shall be excluded; also that the regular taxes of each line are to be included; but that all distinctly war taxes are to be paid by the line out of its own funds. It is noteworthy that the "railway operating income" as defined in the Act and the accounting rules of the Interstate Commerce Commission does not include interest charges nor dividends. These sums are not specifically guaranteed by the Government; they are paid out of the funds of the company itself.

The average annual railway operating income shall be ascertained by the Interstate Commerce Commission and certified

¹ From the American Year Book, 1918. D. Appleton and Co., New York.

to by the President. If no agreement is made with a carrier, or pending its execution, the President may pay an annual amount not exceeding 90 per cent. of the estimated annual amount of just compensation.

2. The agreements between the carriers and the Government provided for in the Act, besides specifying the amount of the annual operating income to which a line is entitled, shall contain adequate provisions for the maintenance, repair, renewals, and depreciation of its property, for the creation of reserve funds necessary for these purposes, and for requisite accounting and adjustment of charges and payments so that "the property of each carrier may be returned to it in substantially as good repair and in substantially as complete equipment as it was in at the beginning of Federal control," and that the United States may be reimbursed for additions, repairs, renewals, and betterments not justly chargeable to the Government.

3. When making additions and betterments or extensions with the approval or by order of the President, the carrier is entitled to additional compensation at "a reasonable rate per centum to be fixed by the President, upon the cost" incurred.

4. Dividends shall not exceed the regular rate of dividends paid during the three years ending June 30, 1917, unless the President approves a higher dividend.

5. A revolving fund of \$500,000,000 was created to pay the expense of Federal control and the amount of just compensation to carriers so far as necessary; to provide terminals and equipment; to make advances to carriers for additions, betterments, extensions, and equipment; to purchase securities at prices not exceeding par and make advances to cover maturing obligations; or to facilitate the use and operation of canals and for the purchase, construction, or use and operation of transportation facilities on inland and coastwise waterways.

6. The President's approval must be obtained before carriers under Federal control may issue securities to provide funds for maturing obligations or for other legal and proper expenditures or for organization.

7. Carriers under Federal control remain subject "to all laws and liabilities as common carriers, whether arising under state or Federal laws or at common law, except in so far as may be inconsistent with the provisions of this Act or any other Act applicable to such Federal control or with any order of the President."

8. Nothing in the Act is to be construed "to amend, impair, or effect the existing laws or powers of the states in relation to taxation or the lawful police regulations of the several states, except wherein such laws, powers, or regulations may affect

the transportation of troops, war materials, Government supplies, or the issue of stocks and bonds."

9. The President is authorized to initiate charges, classifications, regulations, and practices by filing them with the Interstate Commerce Commission and the Commission may not suspend them pending final determination. It may, however, upon complaint enter upon hearings concerning their justness and reasonableness and thereupon make such orders as the Act to regulate commerce authorizes. In so doing the Commission is required to give due consideration to the absence of competition under Federal control, and to any certification from the President to the effect that it is necessary to increase railway operating revenues in order to defray the expenses of Federal control and of operation fairly chargeable to operating expenses, and to pay railroad taxes other than war taxes and net rents for joint facilities and equipment, and compensation to carriers.

10. The President is authorized to exercise the powers conferred upon him through any agencies selected by him, and to avail himself of the advice and assistance of the Interstate Commerce Commission.

11. The transportation systems under Federal control are to be returned to their owners within one year and nine months following the ratification of the treaty of peace, but "the President may relinquish all railroads and systems of transportation under Federal control at any time he shall deem such action needful or desirable." The Act is expressly declared to be emergency legislation enacted to meet war conditions.

UNITED STATES RAILROAD ADMINISTRATION

Organization.—The organization of the Railroad Administration has been rapidly extended since the President in his proclamation of Dec. 26, 1917, took possession and assumed control of the railroads and appointed W. G. McAdoo Director-General of Railroads. Under the Director-General there is now (1) a central administration to control the various functions of transportation, (2) regional administration to administer the railroads within prescribed territorial regions and (3) various advisory commissions and committees. The regional control is exercised in seven defined regions known as the Eastern, Allegheny, Pocahontas, Southern, Northwestern, Central Western, and Southwestern regions.

The Central Administration is made up as follows:

1. The Director-General with a general staff.
2. Division of Finance and Purchases.
3. Division of Capital Expenditure.
4. Division of Operation.
5. Division of Traffic.
6. Division of Public Service and Accounting.
7. Division of Labor.
8. Division of Law.
9. Division of Inland Waterways.

The regional administration in each of the seven operating regions is made up as follows:

1. A regional director.
2. A general staff for each regional director.
3. District directors to supervise the lines in defined sub-districts, although district directors have not been appointed in every region.
4. A federal manager for each individual railroad.
5. In most of the regions one or more terminal managers.

The advisory commissions and committees include a Board of Railway Wages and Working Conditions; a Port and Harbor Facilities Commission; an Exports Control Committee, and a Committee on Inland Waterways.

UNIFICATION OF OUR RAILROAD SYSTEM¹

As showing the economies effected by the unification of our railroads, attention is drawn to the fact that, although the re-organization of the operating forces has resulted in a reduction in the number of officers and in the aggregate of the salaries paid them, it has not involved any impairment of efficiency. Thus, under private control of the railroads there were 2,325 officers drawing salaries of \$5,000 a year and over, with aggregate salaries of \$21,320,187. Under Government control 1,925 officials are doing the same work for \$16,705,298, a reduction of 400 officials and a saving of \$4,614,889 per annum. Under private control, salaries up to \$100,000 per annum were paid officers of railroad corporations; under Government control, the highest salaries are \$50,000 per year.

Regarding this question of salaries, we cannot do better than quote Director General McAdoo where he says this reduction "has not been effected by forcing the experienced men ap-

¹ A summary of the first seven months of Federal operation from McAdoo's report to the President. *Scientific American*. October 12, 1918. p. 288, 308.

pointed by the United States Railroad Administration to accept salaries incommensurate with their responsibilities, although in numerous instances these salaries are substantially less than those they had been earning as officers of the railroads or could earn in private employment. It is not only equitable but necessary that they should be justly remunerated. It is not a question merely of operating the railroads during the period as well, when railroad work must continue to be sufficiently attractive to draw men to it of the right quality and caliber."

We are informed that when the Government took control on the first of January, 1918, the railroads were in a "deplorable condition." In addition to the strain of a winter so severe that it will long be remembered, the motive power was seriously crippled, and on the Eastern lines there was a bad blockade of unloaded cars at the terminals and elsewhere. The number of loaded cars, above normal, was about 180,000. Evidently the first task of the administration was to relieve this situation, and the whole energy of the new Federal organization was devoted to this task. By the end of August there was no accumulation of loaded cars above normal on the Eastern lines. Unfortunately the legislation making available an appropriation of \$500,000,000 for a revolving fund did not become law until March 31st, and the plans laid down were necessarily tentative. Since that date much has been accomplished toward coordinating the transportation facilities for winning the war and for the service of the public.

Having in view the greatly increased cost of living, an advance was made in the wages of employees earning \$250 a month or less. These advances ranged from 43 per cent on the lowest monthly wage to nothing where the wage was \$250 a month; and contemporaneously with this the eight-hour day was adopted for railroad employees. Also, those employed in the mechanical departments, including machinists, boilermakers, blacksmiths, etc., to a total of some 500,000 men, received a substantial advance on a basic rate of 68 cents per hour. To meet this increase, freight rates were advanced 25 per cent and passenger rates were raised to a minimum of three cents per mile. Thus far no decline has been noticeable in the case of passenger traffic, which actually shows an increase in the industrial districts and those serving the military camps.

Since under unified control there is no longer any competition for freight and passenger traffic, the Director General ordered that solicitation of traffic and special exploitation of passenger rates should be discontinued. The soliciting officers of the various railroads have been relieved from duty or assigned to employment with the operating departments, and the separate ticket offices have been consolidated. The total saving resulting from this policy will reach \$23,566,633.

Under the system of separate and competitive operation there was formerly a distinct surplusage of elaborately equipped passenger trains, which in many cases started and arrived at the same time with the result that some of them were but half full. Many of these unnecessary trains have been eliminated; in the territory west of Chicago and the Mississippi passenger trains having an aggregate travel of 21,000,000 miles have been dispensed with, and in the Eastern District a total of 26,420,000 miles of travel have been saved. Railroad tickets between points covered by one or more roads are honored by any of the roads.

Another important feature of unified control is that it has become possible to make common use of the same terminals by railroads formerly in competition and using separate terminals. A conspicuous example of this is the present use of the Pennsylvania terminal in New York for through trains of the Baltimore and Ohio between Washington and New York. And in this case, as in many others, trains leave at successive hours instead of at the same time. Consequently, fewer trains are necessary, and since a ticket between Washington and New York is good over either road, there is a train available nearly every hour, and it is scarcely necessary to consult the timetables.

On the principal that a straight line is the shortest distance between two points, well graded routes for the transportation of freight are being developed that will be shorter than those previously in use. One of these new routes has saved 500 miles. To another a saving of 880 miles is to be credited; and several others show savings of from 103 to 234 miles. To give an example of this economy-during a period of 60 days some 9,000 cars were so rerouted as to effect a saving of 195 miles for each car.

Another important innovation is the standardization of freight cars and locomotives. Prior to the war over 2,000 different styles of freight cars and nearly as many different types of locomotives were to be found on American railroads, nearly every company having its own specifications for its cars and engines. A start toward complete standardization has been made by adopting 12 standard types for freight cars. Also, it has been decided that hereafter only six types of locomotives of two weights each shall be purchased. Any master mechanic will appreciate what it means when it is understood that the parts of these various types of locomotives and freight cars will be interchangeable.

A most important achievement has been the consolidation of the four more important express companies, under the name of the American Railway Express Co., which will conduct express business on all the lines of the Federal railway system. Fifty and one-quarter per cent of the gross revenue of this company is to be paid to the United States Railroad Administration for the transportation of express matter. The balance of the earnings, after paying expenses and five per cent on its capital stock, if earned, will be divided between the express company, the capital railroad administration and a guaranty fund.

Results thus far secured are gratifying. In April, 1917, the revenue ton-miles of 94 per cent of railroads having an operating income in excess of \$1,000,000 per year was 31,464,837,365 miles. In April, 1918, it had risen to 34,250,247,814. This is an increase of 8.9 per cent. The number of freight cars in service had increased 5.1 per cent. The number of tons hauled per train increased 6.9 per cent. The increase in the individual car load was 14.4 per cent. The revenue ton-miles for freight locomotives showed an increase of 7.9 per cent. During the first six months of Federal operation, the increase in coal carried by the railroad was about 22,000,000 tons.

Very gratifying is the last statement of the Director, that officials and employees have worked with such loyalty and zeal to accomplish what has already been done that it is a genuine pleasure to make acknowledgement of their splendid work, it is a constant satisfaction to be associated with them.

RAILROAD EARNINGS SHOW BIG DECREASE¹

The earnings of the railroads in the twelve months ended Dec. 31, 1918, as indicated in their reports to the Interstate Commerce Commission, show substantial increases in gross incomes over the preceding year, although there were big decreases in the majority of the net incomes reported. The figures for December, 1918, as compared with the preceding December show a majority of decreases in net operating income, which is of particular significance in view of the fact that in 1917 the roads experienced traffic congestion, severe weather, and a coal shortage, which cannot be held accountable for the falling off shown in the current reports.

The reports for the twelve months show that, while the increases in gross were large, as the result of the rate increases authorized in 1918, they failed by a big margin to offset increases in wages and costs of operation, and are running below a balance now. In specific cases this disparity between the additional earnings resulting from the rates and the increased cost of operation and maintenance stands out sharply. For example, the gross earnings of the Atchison, Topeka & Santa Fé increased \$21,390,194 in the course of the year, while net income decreased \$4,684,340 and the December decrease in net was \$1,873,574. New York Central's gross increased \$55,861,514, while the road's net income decreased \$6,353,023.

In other cases the difference was even more marked. Chicago, Milwaukee & St. Paul reported an increase in gross amounting to \$19,155,253, but net income was shown to have decreased more than \$18,000,000. Great Northern reported an increase of \$12,129,904 in gross and at the same time a decrease in net of \$12,348,318.

The table on the following page gives gross and net income, with increases or decreases, of twenty-one railroads, as well as the decreases in December, 1918, net income:

¹ New York Times, February 2, 1919.

GOVERNMENT OWNERSHIP

GROSS AND NET INCOMES OF TWENTY-ONE RAILROADS.

WITH INCREASES OR DECREASES.

		Year ended Dec. 31, 1918.	
		Gross	Increase Net
Atchison, Topeka & Santa Fe.....	\$162,369,130	\$21,390,194	\$40,708,335
Baltimore & Ohio.....	174,191,448	40,578,127	8,795,292
Chesapeake & Ohio.....	73,720,797	19,077,003	17,645,994
Chicago & Northwestern.....	127,295,678	19,030,695	12,272,957
Chicago, Milwaukee & St. Paul.....	132,894,455	19,155,253	4,467,774
Delaware, Lackawanna & Western.....	68,740,976	11,528,852	15,853,905
Denver & Rio Grande.....	31,356,214	2,920,076	4,858,526
Erie	87,855,461	16,873,242	†2,147,226
Great Northern.....	100,661,067	12,126,904	10,639,228
Illinois Central.....	107,320,262	20,175,474	12,085,972
Lehigh Valley.....	65,586,769	12,228,323	6,364,382
Louisville & Nashville.....	101,392,792	24,485,405	18,500,668
New York Central.....	294,191,313	55,861,514	50,299,060
New Haven.....	102,294,212	16,509,319	11,315,532
Norfolk & Western.....	82,904,934	16,993,792	17,510,839
Pennsylvania Railroad.....	367,414,694	77,180,602	23,149,178
Seaboard.....	38,923,106	8,577,960	4,096,959
Southern Pacific.....	153,948,641	21,661,085	33,127,096
Southern Railway.....	126,574,297	35,857,728	39,976,625
Union Pacific.....	98,443,365	21,454,912	35,114,379
Wabash	48,246,411	7,774,413	6,790,910

* Increase. † Deficit.

In the face of the foregoing figures and the reports from Washington which indicate that railroad wages will continue to be maintained during the period of Federal control local railroad bankers and operating executives are not inclined to forecast what the future may hold for the carriers.

GOVERNMENT OPERATION IN GREAT BRITAIN¹

The essentials of the British plan for the operation of railroads during the war may be briefly described as follows:

1. A committee of thirteen, including the president of the Board of Trade and the general managers of the leading British railroads are in active control of the railways in England, Wales and Scotland, under authority of the Act of 1871.
2. The government undertakes to maintain the properties on a standard similar to that existing prior to the war, except that a certain percentage, said to be 12½ per cent, is added to the maintenance allowances of the pre-war period, because of the extra cost and wear and tear occasioned by high prices and the extraordinary use now demanded of the railroads.
3. The government guarantees the net income for the year 1913 less an amount equal to one-fourth of the first wage bonus granted to labor, the total reduction amounting to approximately £1,000,000. (The original reduction was equal to the amount by which their net revenues during the first seven months of 1914 fell below the corresponding period of 1913. This condition or proviso was stricken out and the reduction named above was substituted therefor.)
4. No payment is made for the movement of government troops or munitions, it being presumed that the payment of the difference between the guaranty and the receipts from other traffic is sufficient compensation for this service.
5. Very large and substantial increases in wages have been paid to labor. The first advance was divided as follows: the

¹ From "Government Operation of American Railroads" by Clifford Thorne, practicing attorney, former president of the National Association of Railway Commissioners. In the Annals of the American Academy, March, 1918. p. 103.

government assumed three-fourths of the amount and the railway companies assumed the other one-fourth by reducing their guaranteed return to that extent, as described above. All subsequent advances in wages have been assumed by the government. There has been no general advance in freight rates during the war. In 1913 there was an increase of approximately 4 per cent, which it is said became operative at a somewhat later date. This was about the time the 5 per cent was granted by the Interstate Commerce Commission on 50 per cent of the traffic in the eastern district.

There are certain essential differences in the method adopted in Great Britain and that contemplated in the United States in connection with the taking over of the railroads.

In Great Britain the dividends average much less than the dividends on railway stocks in this country. In Great Britain the average surplus (as well as the *typical* surplus) is approximately one-half of 1 per cent. In the United States the average surplus above dividends for the year ending June 30, 1917, was approximately 4 per cent. In other words, the surplus in the United States is approximately eight times as great as the surplus in Great Britain. The guaranty of the net income for 1913 in Great Britain with the subsequent modification that was adopted was not even sufficient to insure the payment of dividends on the principal railroads of the country. We here present an extract from a statement compiled by the Legislative Reference Department of the Congressional Library, the document being prepared by Mr. Gilbert Hirsch.

Before the terms were made public, a report had got out that the basis of compensation was to be a government guarantee of the existing dividend. The Investors' Review had it that the dividend average for the three preceding years was to be the basis of this guarantee.¹

Even after the terms became known, it was popularly assumed that they involved a guarantee that the government would give the railway shareholders every existing dividend.² The Railway News stated, shortly after the announcement³ that shareholders would get dividends at rates approximately equal to those of 1913. And the Economist declared, over a year later⁴ that dividends are more or less guaranteed under the arrangement with the government. There has, however, been some falling off in the dividend rate during the war.⁵

¹ September 19, 1914, p. 319.

² Mr. Healy in the House of Commons, May 3, 1917, 93 H. C. Deb., pp. 564-565.

³ November 21, 1914, p. 683.

⁴ February 26, 1916, p. 398.

⁵ See below, sec. V, B, 2.

The following statistics have been prepared by James H. Olyphant & Co., of New York, and show the situation on nine of the leading railroads in Great Britain.

WAR-TIME DIVIDENDS OF BRITISH RAILWAYS

[There follows a selected list of the common or ordinary stocks of several of the most important British railways, together with their dividend records, 1913 to 1916, inclusive.]

	1913 Per cent	1914 Per cent	1915 Per cent	1916 Per cent
Caledonian.....	3½	3½	3¾	3¾
Great Eastern.....	2½	2½	2½	2½
Great Western.....	6¼	6	5¾	5¾
Great Northern.....	3	2¾	2½	2½
London & North Western.....	7	6	6	5
London & South Western.....	5¾	5¾	5½	7
Midland.....	4¼	4	4	4
North Eastern.....	7	6½	6½	6½
South Eastern.....	4	3½	3½	3½
Average.....	4.82	4.48	4.40	4.58

(From War's Effect on British Securities, James H. Olyphant & Co., New York, p. 25.)

THE RAILWAYS IN THE WORLD WAR¹

In the United States

There can be no question that American railways, inclusive of "all they have and are," from Director General McAdoo down to the humblest track walker pacing his lonely sentinel round, are enlisted in the world war for freedom from the flaming sword to the limit. They have contributed from their ranks some of the very best soldiers and workmen whose deeds and conduct have made "I am an American" the open sesame to the admiration and gratitude of their European allies. In every branch of the service, but especially along the engineering line, they have carried the "get there" spirit of their countrymen in the forefront of the longest battle line in the history of this old world.

Where millions of men are engaged in the struggle, from Switzerland to the North Sea, the task of keeping them supplied

¹ From Slason Thompson's "Railway Statistics of the United States, for the year ended December 31, 1917," p. 18.

with the necessities of life, food, clothing and shelter, to say nothing of the millions of tons of arms, shells and munitions of every kind, is beyond the conception of the common mind. But when the front is a movable "fixture"—on the Aisne today, forced back to the Marne tomorrow—when it hovers in the neighborhood of Chateau Thierry one day to be pushed back, step by bloody step, to the Chemin des Dames in weeks of unceasing fighting, the work of keeping the rail heads "next" to the line is as essential in retreat as in advance.

Never before in the world's history has transportation played such a decisive role as in this awful conflict. Superiority of transportation facilities, to which the entire German railway system was subordinated, gave to the Hun his first great and continuous advantage. The allies have had to improvise a network of main and light railways behind their lines in France and Flanders to match and out match those of their foes. And to this the railways of America have contributed their full share. The ranks of railway employes in the United States have been depleted to furnish sappers and pioneers in the lines from the Europe seaboard to the front.

At home seven-eighths of the railway system has been placed under Federal control and is being operated as an essential auxiliary to winning the war. Only that patriotic purpose could and does justify the necessary curtailment of the service, the side tracking of private travel and business traffic to clear the tracks for the movement of the immense impedimenta of war, millions of men, and millions of tons of food and munitions and material for munitions, from one section of the continent to the other, with a constant pressure toward the Atlantic coast. The railways have kept the docks congested beyond the capacity of all the shipping the world could supply. That tells the state of efficiency which was as true under the Railroads' War Board as under Federal control. And it will continue true until the war is won and the railways can resume their normal function of serving the most exacting clients under the sun at rates never again as low as they were in 1916.

British Railways During the War

Information respecting British railways since August 4, 1914, except as to advances in wages and accidents, has been meager.

The government on the breaking out of the war promptly took over their control under the Regulation of the Forces Act of 1871. Supreme authority was lodged in the President of the Board of Trade, but their administration was entrusted to an Executive Committee consisting of twelve of the executives of the leading companies.

With the facilities at their command this committee has effected amazing results. In the face of an increase of 48 per cent in goods traffic alone, with 168,202 men, or 27 per cent of the total staff, enlisting since the outbreak of the war, with 600 locomotives, 3,000 covered wagons and 20,000 open cars and hundreds of miles of rails shipped bodily to France, Egypt, Mesopotamia and Salonica, with the government traffic in troops and munitions continuously increased, the government has been able to announce that the railways of Great Britain are "carrying on" their bit toward the winning of the war most satisfactorily, and the deficit of a net income equivalent to that of 1913, as guaranteed to the shareholders, is paid without a whisper of welching.

The diversion of seaborne traffic to the railways was met by a more effective use of the 700,000 private "wagons," as well as of those railway owned; the release of so many men for war service was met by hiring minors as substitutes, in addition to 52,343 women; the passenger service, except for the conveyance of troops, was curtailed in every direction, passenger fares were increased 50 per cent and luggage was restricted to 100 pounds per passenger. But the public, enjoying higher wages than ever before, insisted on traveling in spite of higher fares and curtailed conveniences. The advance in freight rates so necessary to protect the government has been inaugurated by one company.

Repeated advances have more than doubled the average wages of British railway employes—that is to say, the wage staff averages approximately \$13.50 a week, where in 1913 the average was \$6.53. The additional wages for the United Kingdom amounts to over \$235,000,000 per annum.

Under the Railway Agreement of 1914 there was paid £16,870,963 to the Executive Committee. Of this £9,852,871 was for estimated deficiencies in net receipts from February, 1916, to January, 1917, compared with 1913; £5,644,408 for arrears of main-

tenance and renewal work from August 5, 1914, to December, 1916; £619,450 lost railway owned ships, and £538,757 interest on capital expenditure. As government traffic is carried without accounting, there is no way of computing from these figures the approximate service the railways of Great Britain are rendering.

In Scotland and England associations of railway stockholders have been organized to take necessary steps toward securing fair treatment for stockholders in whatever way the government decides to deal with railways after the war.

In concluding that part of its report to Parliament for 1917 relating to railways, the British War Cabinet says:

In a period of strain and difficulty the railways of the country and those responsible for their management and operation have risen to every call upon them. Whilst filling all the huge requirements of the war they have, in the frequency of passenger trains, their comfort and rapidity, and in the regularity and quickness in the carriage of goods, provided for the civil population a service probably superior to that of any other country, allied, neutral or enemy.

Throughout the year the far-sighted policy of Mr. Asquith's government of 1914 in taking over the railways has further justified itself. It has enabled a concentration of effort, equipment and material without which it would hardly have been possible to meet the complex and growing demands.

All this was accomplished without destroying existing organizations. Let us hope when the war emergency control is over, a similar claim may be truthfully made by our government.

The net receipts of 32 of the leading railways for 1913 and four years succeeding were: 1913, \$229,045,000; 1914, \$223,785,000; 1915, \$224,455,000; 1916, \$225,315,000; 1917, \$226,970,000. An increase of over \$132,000,000 in gross revenues was more than absorbed by the increase in operating expenses. It is estimated that the government traffic carried free would have yielded about \$155,000,000 in 1917.

French Railways and the War

The Bureau is indebted to M. Mange, Director General of the Orleans Railway, through Charles F. Beach of Paris, for the following resumé of the financial situation of the five leading railway companies of France, for the past five years:

	Operating revenues	Operating expenses	Operating ratio
1913.....	\$311,630,060	\$192,050,054	58.32
1914.....	266,359,879	179,780,079	67.30
1915.....	267,901,370	175,655,248	65.56
1916.....	328,562,621	228,372,654	69.50
1917.....	355,506,193	266,374,521	76.19

The operating ratio in 1917 tells the tale of the relatively high cost of railway efficiency during the war. The net income in 1917 was \$62,273,380 short of meeting the capital charges.

In 1916 the operating ratio of the state railways was 96.79 and the net income was only \$2,344,564 with which to meet annual capital charges of \$28,495,870. That is the goal of bankruptcy toward which bureaucratic operation of railways moves inexorably the world over in peace as well as war.

The battle front in France can be traced in the statement of the receipts of its large railways from 1913 to 1917 almost as clearly as on the map. The figures are in millions of francs:

Railways—	1913	1914	1915	1916	1917
Nord	336	240	171	244	284
Est	305	228	191	259	272
Paris-Lyon-Mediterranean ..	596	503	557	678	683
Paris-Orleans	306	280	332	374	408
Midi	147	127	135	145	162
Etat (state)	324	296	316	379	...

The government traffic is included in these figures.

The *Nord* and *Est* railways serve territory where the devastation of war has ebbed and flowed for four years and it is gratifying to see that the railway barometer marks its recession since 1915. But despite the recovery of railway receipts in France shown above, the rising cost of everything entering into the service of transportation has caused a deficit of over \$318,000,000 during the past four years. To meet this condition the French Chamber last March voted a general increase of 25 per cent on all tariffs, "except for the army transport service, and parcel post rates." This increase is to be maintained for six years after the war, subject to the payment to the National Treasury of any surplus above a specified amount. It is not believed that the 25 per cent increase will overcome the deficit, especially in the case of state railways, on which the operating ratio last year approached 100 per cent, exceeding it on the original State system.

The French railways have entered into an agreement with the State to build immediately 830 locomotives, 690 tenders and 32,968 freight wagons—the State to pay 40 per cent of the net cost, provided the total commitments do not exceed \$68,800,000. Of the 376,000 cars available on the French railways in 1914, 55,000 were lost as the result of German occupation of territory.

Returning Americans report the roadbed and general equip-

ment of French railways in fair condition, and trains running on time, except in the immediate war zone, and the approaches thereto, where everything is subordinated to war traffic.

Italian Railways in the War

Notwithstanding the decline in foreign tourist travel has seriously affected the finances of the State railways of Italy, they have actually been improved during the war. There has been a paper increase in receipts due to the heavy movement of troops. Military transportation has been performed with promptness and perfect order, "without accidents and without disturbing in any way the passenger and goods service."

The high cost of coal has given an impetus to the electrification of Italian railways. Based upon results already attained, the State is gradually adapting electrical traction to main lines with dense traffic.

The railway system of Italy comprises a total of over 11,200 miles, of which over 8,690 miles belong to the State.

Discussing the wartime tendency toward government control of railways, Dr. Maffeo Pantaleoni, an eminent Italian authority on government systems, says: "The war waste in Italy has been about 8,000,000,000 lire (\$1,544,000,000.) And at that Italy is getting off cheap in comparison with other nations experimenting with government control."

German Railways in the War

Little is known of the actual condition of German railways. If official statistics were to be believed—and they are not—their gross receipts have held up most remarkably. The results for the first nine months of 1917 are reported as exceeding those for the corresponding period in 1916 by 30 per cent in passenger traffic and 5 per cent on freight. How much of this is swelled by credits for transportation of troops and military supplies the report does not specify. Increased expenditure exceeds the increased revenue in the proportion of 1,100,000,000 marks to 462,000,000. Moreover the expenses have been reduced by the curtailment of passenger service and the limitation of repair work in permanent way and equipment.

The wages of German railway employes have been almost

doubled since 1913. The increase in 1917 alone amounted to \$131,000,000. Between 1913 and 1916 the average pay of locomotive drivers and firemen increased from 82 cents per shift worked to \$1.24, and of skilled artisans in the shops from \$1.22 to \$1.90. For all classes taken together, the average worked out an increase of from 90 cents to \$1.18 per shift, or 31 per cent. In 1916 compared with 1915 there was an increase in the number of "railway servants" of the working class and subordinate officials of 14,623. But this was wholly due to the employment of 55,545 women in 1916 against only 22,700 in 1915. Since 1913 the number of women railway "servants" has increased from barely 10,000 to over 107,000 in 1918.

In regard to the work of women, the Prussian Minister of Railways reports that "where mental capacity has to be combined with manual skill and activity women cannot take the place of men in railway service. * * * Where it is particularly a question of physical qualities being required, as in the work shops, repair of the line and the like, the labor output of women does not exceed 50 to 75 per cent that of men."

A member of the Reichstag reports that the rolling stock of the German railways has suffered serious deterioration and that travel is subject to frequent delays by reason of the breakdown of locomotives.

Thefts on trains by armed soldiers have been so numerous as to attract the attention of Army Headquarters, and men in charge of supply trains hereafter will be armed with rifles and light machine guns. The Prussian state railways paid \$14,250,000 compensation for property lost or stolen in transit in 1917 against only \$1,000,000 in 1914. These thefts are attributed to insufficient pay and scarcity of food among the soldiers. "The longer the war lasts," says a member of the Reichstag, "the more difficult the traffic problem becomes. Once the railways fail us, we have lost the war."

Hungarian Railways in the War

The Director General of State railways in Hungary has issued an order containing the following provision among others:

"Employes of State railways of Hungary may not belong to any associations the aims of which are hostile to the nation, or

which in view of the Minister of Commerce are irreconcilable with the interests of the railway service.

"Employes taking part in strikes or in systematic neglect of the railway service, with the object of hindering traffic, will be liable to immediate dismissal. In addition, as every member of the staff is a public official, these offenses will be punished by imprisonment for a period not exceeding three years."

The condition of track and rolling stock of Hungarian railways is reported as very bad, owing to the high cost of labor and materials. Wages of employes have been increased and rates have been advanced to meet increased cost of operation.

Rumanian Railways Germanized

Germany has assumed virtual control of the Roumanian railways. What is called a "concession" gives to Germany the monopoly of furnishing its railways with rolling stock and all supplies. A representative of the German Railway Administration is stationed in Roumania to supervise the materials supplied. Rates have been settled at a certain figure "so that Roumania may not be able to obtain revenue from her railways to the disadvantage of Germany." Nothing is done to improve the service, which has suffered great deterioration under German occupancy.

Chaos on Russian Railways

The chaos arising from conflicting governments in Russia has naturally extended to the railway service. This, never first class at the best, has been practically paralyzed by the struggle between the Bolshevik "Commissioner of Railways" and the "Vik-gel," or Federation of Russian Railway Workers Union. Both claim to direct the railway services. Both issue contradictory orders and each forbids its adherents to obey the orders of the other.

As a consequence, collisions and derailments are of frequent occurrence. The condition of the permanent way and rolling stock is reported as lamentable. Approximately 50 per cent of the locomotives are laid up for repairs and it is impossible to get more than a small percentage of repairs done. A traveler reports that many officials and employes are continually drunk, orders are not obeyed, and signalmen come and go from their work at

will. Violence is rampant, and theft of merchandise and baggage is common. Only the "bourgeoisie" have to buy tickets, the bolshevik traveling "at the expense of the Revolution." Such, in brief, are the reports that reach Paris from Russia.

Swiss Railways

Although the gross receipts of the Swiss railways for 1917 showed a substantial increase over those for 1916, they were still about 10 per cent below pre-war figures. On the other hand, operating expenses continue to expand with alarming regularity. Where the operating ratio before the war averaged below 66 per cent, it was 73.72 per cent in 1916 and 78.88 in 1917.

This condition has been brought about chiefly by the increase in the bonuses paid employes which amounted to \$3,400,000 in 1917, or 22 per cent on the Swiss railway pay roll.

Net receipts for 1917 fell \$5,700,000 short of covering the charges in the profit and loss account, making a total deficit since the war of \$14,360,000.

Passenger receipts showed an increase of \$1,300,000 over 1916, but were some \$6,000,000 short of the pre-war average. Such increase as there was is entirely accounted for by the advance in the scale of charges, as there was an actual falling off in the number carried. The high cost of coal has given a great impetus to electric traction, utilizing the waterpower abundant in Switzerland. Estimates of the cost of electrification of Swiss railways range from \$50,000,000 to \$150,000,000.

In Australia

The Chief Railway Commissioner for New South Wales has made a report on the cost of working his department, which contains the following interesting details of increases in expenditures beyond the control of the administration between June 30, 1914, and June 30, 1917:

Increases due to Wages Board Awards wages and salaries.....	\$2,733,287
Increases due to increase in rate of interest.....	1,812,687
Increase in cost of materials purchase price.....	1,149,670
Total	\$5,695,644

To American eyes these advances appear almost negligible, but they added over 21 per cent to the expense of operating the New South Wales railways without any increase in their ef-

ficiency. War prices in wages, interest and materials have added a higher percentage to the cost of operating Australian railways without adding the turn of a gondola wheel to their efficiency.

In other Australian states increased costs, higher fares and rates and larger deficits are the rule without exception.

Japanese Railways

Preparations for the conversion of the railways of Japan from narrow to standard gauge are proceeding steadily. A sum of 8,000,000 yen (\$4,000,000) has been added to the railway budget to be expended on heightening and widening the tunnels whose length is 20,000 feet, as well as increasing the distance between the tracks on double track lines. The tunnels are to be 16 feet wide and 18 feet high where they are now 14 and 16 feet respectively.

Recently designed locomotives and cars have been so built as to be readily capable of conversion to broad gauge stock.

The total mileage of Japanese railways, state and private, is about 8,400 miles.

The Chinese Railways

In 1915 the government railways of China, operating 3,267 miles through 15 companies, showed a net surplus after meeting fixed charges of approximately \$7,500,000. The accounts of these railways are kept according to a system patterned after that established by the Interstate Commerce Commission of the United States, having had the benefit in their adaptation of the counsel of Prof. Henry C. Adams, for many years Statistician of our Commission. The principal items in the report for the year mentioned, per mile of line, in Mexican dollars, (equal to 75 cents), are as follows:

Gross revenues	\$17,098
Operating expenses	9,034
Net operating revenues	8,064
Operating ratio	53%
Other income	162
Total net income	8,226
Fixed charges (including taxes)	5,292
Surplus	2,934

The shareholders of the Chinese Eastern Railway, built with Russian capital, have elected an anti-Bolshevik directorate and

eliminated the Russian half of the board, owing to "present conditions in Russia."

Egyptian Railways

The chief event in connection with the railways of Egypt in 1917 was the completion of the swing bridge over the Suez Canal at Kanturah, thus assuring rail communication between both sides of the canal. As the British have pushed the railway crossing the desert to and beyond Gaza, there is now railway connection between Cairo and other points in Egypt through Gaza to Jerusalem.

The Egyptian budget for 1918-19 shows a large increase in railway expenditure due to the high prices of material, food and fuel. The extra cost of fuel for railways alone amounted to \$4,750,000.

East Indian Railways and the War

War conditions have so seriously affected the railways of India that it has been found necessary to impose some severe restrictions on the enormous annual pilgrim traffic in connection with the Indian festival Magh Mela. The government in apologizing for this has pointed out that the railways were suffering from a depletion of personnel and materials in the presence of an increased traffic of a most urgent and essential nature. The passenger service has had to be curtailed to permit of the free movement of military traffic and coal. The action of the government has been accepted without murmurs "as justified by the necessity of avoiding the risk of interfering with the prosecution of the war."

For the year 1916-17 the net working profit from Indian state railways after meeting interest and other charges was \$36,437,000. The increase in earnings was chiefly due to the advance in passenger fares.

In Mexico

Reports of railway conditions in Mexico are far from satisfactory. Brigandage flourishes in the North. The difficulties and danger of operation encourage the companies to charge exorbitant rates for moving freight. Local authorities impose all kinds of restrictions on traffic, especially on supplies leaving

their jurisdiction. Troops have to guard the trains on the most traveled routes. The government promises to pay indemnity for cars destroyed since the beginning of the Revolution. But these promises are subject to a liberal discount.

THE RAILROADS¹

DIRECTOR GENERAL OF RAILROADS,
Washington, December 11, 1918

HON. T. W. SIMS,

*Chairman Interstate and Foreign Commerce Committee,
House of Representatives.*

MY DEAR JUDGE SIMS: The question of railroad legislation is of such vital importance to the country that I take the liberty of submitting to you my views as to the course that should now be pursued. The war is ended, and we are now confronted with the necessity either of legislating intelligently about the railroad problem at this session of the Congress or of promptly returning the railroads to their owners.

Less than three months of the present session of the Congress remain. It will be impossible, I presume, to secure legislation in this short period providing a permanent solution of the railroad problem. This being true, only three courses are open: (1) Government operation of the railroads for one year and nine months following a proclamation of peace, which would mean, in my judgment, Government operation for a period in no event longer than two years and three months; (2) the prompt return of the railroads to private control; or (3) extension of the period of Federal control to five years.

I am convinced that it is wholly impracticable, as well as opposed to the public interest, to attempt to operate the railroads under the provisions of the present law. In the first place, the time is too short, and, secondly, the present legislation is inadequate.

As to the shortness of time, it is clear to me that the railroads can not be successfully operated under Federal control during the next two years in the face of an automatic transfer

¹ Congressional Record. December 12, 1918. p. 377.

to private control at the end of that time or of an earlier relinquishment by proclamation of the President. Every month that passes will bring more clearly to the minds of the officers and employees the fundamental change in management that is impending and the question as to what that change means to the individual. It is against human nature that there can be complete and single-minded attention to duty under such difficult circumstances. This will be especially true on account of the inevitable discussion as to what ought to be done. Already this discussion is in full swing, and its reaction on officers and employees can not be consistent with the complete concentration upon their daily duties. State railroad commissions, railroad security holders, railroad executives, shippers' organizations, and other interests are naturally and properly discussing the subject and proposing various solutions. However desirable the discussion is for the crystallization of public sentiment, it can not result otherwise than to produce a state of uncertainty and ferment among the vast army of railroad officers and employees, who will inevitably feel that they face a rapidly approaching change in management.

No business in the United States so imperatively requires disciplined organization and composed conditions of operation, for officials as well as for employees, as the railroad business. Not only does the safety of the lives of millions of passengers depend upon such disciplined and efficient organization, but the commerce of the country as well. To keep this vast army of officers and employees in a state of uncertainty and ferment for a period of two years would be harmful in the highest degree to the public interest. It would be impossible to prevent a serious impairment of the morale of the railroad organizations.

From the standpoint of needed improvements, the period of two years is entirely too short a time within which to plan and carry out the comprehensive improvements which ought to be made to meet the country's requirements under peace conditions. Many of the improvements could hardly be completed and put into operation inside of the two-year period, and under such circumstances and facing a change to private management at the end of two years, it would be unwise in the highest degree to make the improvements and impossible to secure the hearty cooperation of the railroad corporations.

Because of the inadequacy of the present legislation, the authority of the States and the Federal Government has been left in doubt by provisions which I opposed when the bill was under discussion. Conflict between State and Federal jurisdictions will grow more acute under this law. The revolving fund appropriated by the Congress will be insufficient to carry the Federal operation for a two-year period. More than that, it is of the utmost importance to the commerce, industry, and life of the American people that a comprehensive program of improvements to railroad properties shall be carried forward over a period of at least five years; such a program will involve expenditures of at least \$500,000,000 per annum, or \$2,500,000,000 for the five-year period. The needed funds are not provided for by the present law. Moreover, it is difficult under the present law, without the consent of the corporations, to carry forward a comprehensive plan of joint improvements, which, to be of value to the public, must of itself disregard the selfish and irreconcilable competitive interests of the various carriers. Many terminal improvements, to be genuinely serviceable to the public, must be made without regard to the interest of any particular carrier. Therefore agreements between the Government and the railroads affected will, in many instances, be impossible, and if the Government should proceed with such improvements, using the people's money for the purpose, without securing the carriers' consent, litigation would undoubtedly arise upon the termination of Federal control, with the danger that a large part of the Government's investment in the properties might be lost.

Upon the efficiency of the transportation machine in America depends in great measure the future prosperity of the Nation. Involved in this prosperity is the extension of our foreign trade. We produce so much more than we consume that markets must be found for that surplus. Those markets are the competitive markets of the world. We must be able to enter them upon equal terms with any other nation. Our transportation system, both on land and water, must therefore function at the highest point of efficiency and at the lowest possible cost, if we are to get our reasonable and fair share of the world's trade and in turn be able to keep a prosperous, contented, and happy population at home.

To attempt to continue Federal control under the inadequate provisions of the present Federal-control act and for the very brief period it authorizes would be to multiply our difficulties and invite failure. On the other hand, I am convinced from the experience of the past year that the return of the railroads to the old competitive conditions will be hurtful alike to the public interest and to the railroads themselves. This course, however, will bring fewer evils in its train than the unsatisfactory, if not impotent, Federal control provided for by the present act. The railroads were taken over as a war measure. They have been operated during the past year for the paramount purpose of winning the war. I think it will be generally admitted that the war service has been successfully rendered, and I am sure that experience of great value and benefit has been gained not only for the public but for the railroads themselves during this brief test.

There is one, and to my mind only one, practicable and wise alternative, and that is to extend the period of Federal control from the one year and nine months provided by the present law to five years or until the 1st day of January, 1924. This extension would take the railroad question out of politics for a reasonable period. It would give composure to railroad officers and employees. It would admit of the preparation and carrying out of a comprehensive program of improvements of the railroads and their terminal facilities which would immensely increase the efficiency of the transportation machine. It would put back of the railroads the credit of the United States during the five-year period, so that the financing of these improvements could be successfully carried out. It would offer the necessary opportunity under proper conditions to test the value of unified control, and the experience thus gained would of itself indicate the permanent solution of the railroad problem.

The American people have a right to this test. They should not be denied it. It is to their interest that it should be done. In my opinion, it is the only practicable and reasonable method of determining the right solution of this grave economic problem.

I am not now and have not been for the past year interested in proving or disproving the theory of Government ownership or any other kind of theory. The railroads have been operated

for the past year with the purpose of serving efficiently the paramount needs of the war and at the same time furnishing the best possible service to the public, whether such operation tended to prove or to disprove any theory of railroad control, no matter what it might be. I have formed no opinion myself as to what is the best disposition of the railroad problem, because the test has not been sufficient to prove conclusively the right solution of the problem. I believe that a five-year test will give the American people the right answer. An ounce of experience is worth a ton of theory, and with the start already made under war conditions it would be a comparatively simple matter to complete the test so well begun and thereby gain the invaluable experience which will determine the solution of a problem which has vexed our State and National politics and our economic development for the past generation.

There are those who may say that an extension of five years for such a test will mean Government ownership. Personally I do not believe it. But whether such a test would indicate that the ultimate solution shall be Government ownership or a modified form of private ownership under effective Federal regulation should not cause us to hesitate or refuse to act. It seems to me that in a democracy like ours, where public opinion and the judgment of the majority must finally control, the plain duty is to take those steps which will fully inform public opinion, so that the judgment may be based upon knowledge rather than upon theory. Any test which will illumine the subject so completely that public opinion may operate upon it intelligently would seem to me to be desirable in any circumstances.

In this connection, may I draw your attention to the statement I made before the committee of the Senate on January 21, 1918, in reply to a Senator who asked if I believed "in the Government ownership of railroads." I said:

I do not, or I have not, at least, felt that it was necessary to take the actual ownership of the railroads. I believe that it will be impossible after the return of peace to restore the competitive conditions to the same extent as they existed prior to the outbreak of the war. I favor some form of governmental regulation and control of a far stronger, more intelligent, and effective character than we have had heretofore, because I am satisfied that a stronger Government control will be demanded and will have to be worked out, both in the interest of the public and in the interest of the security holders of these railroads.

Those who may oppose an extension of five years should face the situation squarely and acknowledge that they prefer the im-

mediate return of the railroads to private control under the old conditions without remedial legislation. It is idle to talk of a return to private control under legislation which will cure the defects of the existing laws. There is neither time nor opportunity for such legislation at present. It is impossible and hopeless for the Government to attempt the operation of the railroads for 21 months after peace under the present law. Therefore the country should squarely face the condition that the railroads must promptly go back into private control with all existing legal difficulties unless the only practical alternative, viz, an extension of time, is promptly granted.

I hope that the Congress in its wisdom will grant a five-year period for a test of unified railroad operation under proper provisions of law which will make that test effective and at the same time take the railroad question out of politics while the test is being made. Unless this is done, I do not hesitate to say the railroads should be returned to private ownership at the earliest possible moment. The President has given me permission to say that this conclusion accords with his own view of the matter.

Cordially, yours,

W. G. McAdoo,
Director General of Railroads

HINES FOR FIVE-YEAR EXTENSION OF RAILWAY CONTROL¹

WASHINGTON, February 3.—Director-General Hines, testifying to-day before the Senate Interstate Commerce Committee for the first time since his appointment as railroad head, declared he did not believe in Government ownership, but in organization of a few big railway companies subject to close Government supervision.

"I do not believe there is anything substantial in the argument that a five-year extension of Government operation would necessarily mean Government ownership," Mr. Hines said. "I do not personally believe in Government ownership. I believe

¹ *New York Evening Post*, February 3, 1919.

there can be a form of radically reconstructed private ownership with such close Government supervision, including Government representation on the board of directors, as will give the public and labor all the benefits of Government ownership and at the same time will preserve the benefits of private and self-interested initiative and will avoid the political difficulties which perhaps are inseparable from Government ownership.

"I believe that all the objects which I think must be achieved in order to obtain a permanent solution can be accomplished through the creation of a comparatively few railroad companies which will have capitalization equal only to the real value of the property, and which will have a moderate guaranteed return with the right to participate moderately in any additional profits."

To permit development of a comprehensive and permanent solution, Mr. Hines renewed Mr. McAdoo's recommendation for a five-year extension of Government control, and explained that if this were not done he believed it would be best for all interests concerned to relinquish Government control without waiting for expiration of the twenty-one months' period provided by existing law.

Mr. Hines presented the following arguments for a five-year extension.

"It will give advocates of Government ownership full opportunity to press their views without being influenced by the temporary reaction against Government control.

"It will remove the necessity for undue haste in solving such a big problem as the future of the railroads. It will stabilize employment and wage conditions, permit prosecution of a big programme of big improvements and extensions, help to take up the slack in employment and materials during the critical period of readjustment.

"It will protect security holders pending an ultimate solution.

"It will minimize the danger of making the railroad question a purely partisan issue, to be considered in an illogical manner, in the Presidential elections."

On the other hand, Mr. Hines said that if this extension were not made the roads should be relinquished before expiration of the twenty-one months. He made in substance these explanations:

There is now a reaction from the patriotic tension of war times, resulting in a critical and hostile attitude by the public toward Government management and this makes control difficult.

Proponents of particular theories of railroad operation are finding in Government control under abnormal war conditions and of the present "inadequate and temporary" form arguments for supporting their varying theories.

The uncertainty of the future on the part of employees would increase as the twenty-one months' period would draw to a close.

Twenty-one months is not enough time to complete many extensions and improvements, and it would be hard for the Government to undertake such a programme, which would not show results during the control period.

Early relinquishment would not cause any more chaotic condition now than later, even under legislation providing a reform scheme.

Old rates would not go into effect automatically with cessation of Government control, and railroad companies would not be thrown into bankruptcy, as has been feared.

Mr. Hines went into detail to explain that he believed the courts and the Interstate Commerce Commission would uphold the present level of rates, and that the railroads were unduly alarmed over prospects of financial disaster in case their properties were returned soon to private management.

Advising more deliberation in discussing the railroad question, Mr. Hines said:

"I think it is a fair prediction that before any legislation can actually be shaped there will be a strong reassertion of the permanent views of that part of the public which insists on a greater degree of social control of the railroads and that this reassertion of the views now temporarily in the background is going to defeat the adoption of any permanent programme in the next two years.

"If this shall be the case, the result will be that the end of the twenty-one months period will approach and that there will be no actual solution at all, and then there will be an outcry for an extension of time. In all probability the time will then have to be extended."

At present, said Mr. Hines, the unfair inference is per-

sistently drawn that the heavy operating costs are necessarily due to increased rates of wages, whereas, they are largely due to war conditions, and the position of labor in this matter should not be prejudiced by forcing a conclusion before there is time to see the results of increased wages under peace conditions. Since last year was under abnormal war conditions, this year involves readjustment, and normal conditions will not be until next year, he declared, and it will be the middle of 1921 before a fair view of Government operation can be obtained.

No plans now before the committee meet the fundamental necessities of a permanent solution, said the Director-General. Those already proposed, he declared would perpetuate existing railroad capitalizations which he believes were the cause of deep-seated suspicion on the part of the public and labor, and which must be corrected before any permanent solution can be had.

The present plans, he asserted, include all existing railroad companies, both those which thrive on low rates and those which fail on high rates, thus putting the public to a disadvantage through paying too much to some and getting inadequate service.

A permanent solution, Mr. Hines said, should give the Government and perhaps labor participation in excess profits of some companies under standard rates. Plans heretofore proposed were based on the theory that railroads should receive a reasonable return, no more and no less. But in actual results, he believed, the return would be inexact and widely fluctuating. Failure of the pending plans to meet these fundamentals said Mr. Hines, will tend to prevent their receiving general acceptance and will not solve the question satisfactorily. He added that proposed plans for pooling and consolidations will prove illusory because they cannot successfully be made compulsory.

OPPOSES McADOO'S FIVE-YEAR PLAN ¹

WASHINGTON, Jan. 30.—Opposition to the McAdoo five-year plan for extension of the period of Federal control over the railroads was voiced before the Senate Interstate Commerce

¹ New York Times, January 31, 1918.

Committee today on behalf of the State Railway Commissioners by Charles E. Elmquist, President of the National Association of Railway and Utilities Commissioners. This is an organization composed of the members of the Interstate Commerce Commission and the regulating commissions of all the States except Delaware.

President Elmquist urged the committee to deal, first, in legislation which he hoped would be enacted before the session of Congress ends on March 4, with railroad matters calling for immediate relief, and that it would then turn its attention to those of a less pressing but more permanent nature. He insisted that the present Congress should dispose of the McAdoo five-year plan before March 4.

"The railroads were taken over for war purposes only," said Mr. Elmquist. "They have performed that function well. Troops have been freely and expeditiously moved and necessary supplies and munitions have been furnished to our armies at home and abroad. The real purpose for Government control having been accomplished, good faith and square dealing demand the return of these roads to their owners at a time when it will not embarrass the country or seriously cripple the transportation machine, and under such legislative safeguards as the people may approve.

"We believe that Dec. 31, 1919, would afford ample time for this purpose, if a special session of Congress is called to consider the railroad problem. Congress should either amend the Federal Control act or adopt a joint resolution fixing that date for the return of the properties."

Four reasons were given by Mr. Elmquist why his organization is opposed to the five-year plan, as follows:

1. It continues the present guaranteed compensation of practically a billion dollars per annum to the railroads for a period of five years, as well as the prospect of the present high operating cost. No one can foresee what the operating, economic or financial situations of these carriers or the country will be during this period.

2. It continues in time of peace the alleged war power of the President to set aside State and Federal laws, to initiate rates, to fix wages, route traffic, and consolidate properties and terminals.

3. It continues the uncertain and chaotic condition of rates and practices whereby shippers are denied the right to be heard before rates go into effect, and it purports to suspend, for the period of five years, laws which have been wisely passed in the States for the regulation of common carriers. During this time shippers, claimants and State officers may be required to bring actions against the Federal Government instead of against the railroads.

4. It thrusts prominently into the public forum a discussion of Government ownership before the work of valuing these properties has been completed by the Government, and before it is possible to know what the railroad properties are worth. Common business sense suggests the wisdom of ascertaining the sum involved in the purchase before deciding the question.

Mr. Elmquist said his organization favored the merger within proper limits of the carriers' lines and facilities in such part and to such extent as might be necessary in the public interest to meet the reasonable demands of domestic and foreign commerce; the consolidation of terminal facilities whenever the public interest would be promoted thereby; the development of inland water ways and the co-ordination of rail and water systems, but that this could not be done without giving regulating tribunals the right to fix minimum as well as maximum rates.

The right of shippers to route traffic, except in cases of emergency, was favored but the proposal to appoint a Secretary of Transportation was opposed because it would "make the railroads the football of politics." The organization, he said, also opposed Federal incorporation of railroads.

"We believe that employes in the railroad service should be adequately compensated," he said. "We doubt the advisability, however, of conferring upon the Interstate Commerce Commission the power to fix wages."

RAILROAD POLICY OUTLINED BY PRESIDENT REA OF THE PENNSYLVANIA RAILROAD COMPANY¹

"The sudden cessation of active warfare has brought about serious reconstruction questions, and none more important than the future relations and policy of the Government to the railroads which are still under Federal control. While the railroad companies have some protection against war losses under the Federal control contract, it should also be remembered that their earnings are limited to the net railway operating income of the three-year period ended June 30, 1917, and that they have derived no profits from the war traffic to meet the problems of the reconstruction period. The Senate Committee on Interstate Commerce has been sitting for months in Washington taking testimony bearing upon the important question of a future national railroad policy, before formulating that policy and deciding the legislation required to make it effective.

"The railroad executives, as a result of their long experience and exhaustive study of this important question, recommended a plan which, in their judgment, could be made effective in the war reconstruction period, and would protect the interests of the public, the railroad owners and employes. Before the railroads are released from Federal control suitable legislative action must be taken, whereby all interests will be adequately protected, and the country assured of a progressive transportation system, and the railroad owners a fair return upon their investment. This is not only justifiable but necessary to keep the railroad corporations' credit in sound condition, and to attract additional capital essential to enable the companies to expand their lines and facilities to meet the requirements of a still rapidly growing country.

While these necessities have heretofore been measurably recognized, the railroad companies have been unable to secure adequate revenues to produce those results, and the existing Federal and State laws and conflicting regulation do not concentrate the responsibility upon any of the Federal or State

¹ In the annual report of the Pennsylvania Railroad Company, 1918.

regulatory authorities. Under restrictive national and State laws and regulation the companies have not been able to obtain, for the good of the country, the benefits that reasonably could have been secured from closer co-operation and unification of their service and facilities, the elimination of duplicate train service and facilities, and from other operating economies. It is hoped that these and other deficiencies in our regulatory system will be dealt with by both national and State legislation in such effective fashion as to stabilize railroad credit on a sound basis, and maintain the confidence of investors in railroad securities. The railroad stocks and bonds are owned by many millions of citizens, individually and through their savings, insurance and other institutions, and, judged by past results on our railroads, compared with those of other countries, it ought to be the national policy to encourage such ownership, instead of Government ownership, which inevitably means political operation, with all of its consequent civic dangers, increased costs, and lack of development to meet commercial demands.

"This ownership and a sound national railroad policy it is believed can be secured under the plan submitted by the railroad executives without disturbance of business, or placing an additional financial burden upon the Government, and in such a way as to preserve private initiative and operation of railroads, under which the country has had such remarkable development in the past. The main features recommended by the railroad executives are, a Federal statutory rule to insure rates that will produce a return sufficient to attract new capital into the railroad business and pay a reasonable return on the existing investment; the concentration of responsibility in the Federal Government for the regulation of rates, wages, and security issues; relief from the restrictive Federal and State laws which prevent the further unification of existing railroads and co-operation between them as to the use of their terminals, equipment, ticket offices, and other transportation facilities and service. Under any policy of fair regulation and adequate rates, the railroads require no financial assistance from the Government, and the country at large is fully convinced that they are entitled to a fair return upon the railroad investment, and so long as public regulation withholds that return, it creates a great obstacle to national prosperity and progress. There-

fore it is earnestly hoped that Congress will give prompt consideration and attention to this most important subject, and will so deal with the problems involved as to make possible the return of the railroads to their owners and experienced managements at an early date under a national regulatory system which will meet the demands of the situation, and will assure comprehensive development of the country's transportation facilities."

TODAY'S RAILROAD PROBLEM¹

I agree heartily with President Rea, of the Pennsylvania, that we must take government control as now in effect as a *fact*—and let that be our point of departure. And we must agree that the present system of operation has in it certain merits which must never be sacrificed. Most of them are merits that may exist under either private or government ownership and operation. Most of them, indeed, embody reforms for which railroad officers have clamored these many years.

First, and foremost, the Sherman law is out of business. He was tossed out of the window by Mr. Fairfax Harrison and the Railroad War Board as soon as war was declared; but President Wilson and Mr. McAdoo chloroformed and embalmed him on the 28th of last December.

Let us briefly suggest the other obvious blessings of the present regime:

1. The pooling of equipment and terminals;
2. The elimination of unnecessary trains and duplicated service;
3. The more economical loading and routing of freight;
4. The unification of passenger ticket offices;
5. The elimination of the frills of the business, such as observation cars for which no adequate fare was paid, etc.;

¹ By Theodore P. Shonts, President, Interborough Rapid Transit Company.

6. The frank recognition of the necessity on the part of government, which adds to the expenses of operation, to find the increased rates and fares with which to pay those expenses; and
7. The assertion of the right of the Federal Government to control the railroad situation as a whole in the national interest, in spite of conflicting state laws and obstructive state commissions.

These are great gains, and it is the duty of every railroad man to see to it that they are brought clearly to public attention. We must face the fact very frankly that the decision of this momentous issue is absolutely in the hands of the public. The public must take one of two broad policies.

It may prove profitable to sum up the factors constituting the two horns of the dilemma, one of which our nation must choose as its ultimate policy.

As one with practical railroad experience and as an observer of government operation throughout the world, I am convinced that the most economical operation can be attained under private ownership. And the gains we have obtained from government operation can all be retained under private ownership.

The great fact about government operation is the inevitable tendency toward extravagance and inefficiency. If the deficit from operations can always be made up out of taxation, if there is to be no reward for economy and forethought, it is impossible to expect careful watchfulness over expenditures.

The supreme test which we in this country must apply to our plan of dealing with this whole question must be this: which plan will provide the necessary transportation at the lowest possible cost?

This means that we must not alone make the best and most economical use of existing facilities, but we must provide the new facilities needed for the future development of our country.

We cannot here view the question as one might in England or France, where the necessary railroads are already built.

How are we to develop our existing roads, and how are we to build our new railroads? The heart of the problem is this: Shall it be by the log-rolling and pork-barrel methods under which we have developed our postoffices, our rivers and our

harbors, or shall it be by offering reasonable reward to those who by prudent forethought and initiative exert their imaginations and spend their money in developing the country?

As citizens, we cannot consider the railroads being returned to private owners merely for the reason that immediate return would redound to the benefit of large holders of the securities in some of the companies.

Any plan of returning these properties to private owners must contemplate three general propositions:

1. That a fair return may be paid upon existing investment;
2. That a sufficient return may be earned upon railroad properties to attract the necessary capital with which to develop existing lines and to build new lines; and
3. That railroads must compete for capital in the money markets of the world, and must, by the same token, pay for that capital with some regard to the risk.

It has been suggested that the nation might adopt some such course with reference to railroads as is employed by New York City in its contracts with the subway and elevated. The cardinal point in those relations is that the City provides a large portion of the capital, but agrees that a fair return upon the private capital employed shall be earned and paid before the City's investment gets its return. After both sides have earned a fair return, the remaining profits are to be divided equally.

Such a plan is advantageous where there is an assured traffic. But there is grave question whether that plan would have resulted in such daring statesmanship as was embodied in the building of the Great Northern by Mr. Hill, the cutting across Salt Lake by Mr. Harriman, the building of the N. Y., P. & N. by Mr. Cassatt, or the construction of the Florida East Coast by Mr. Flagler.

The cardinal thought is this: that if we are to escape not only the bureaucracy, extravagance, and dead-level of Government ownership and operation, but also the political risk involved in the creation of a new and gigantic class of Government employees, we must be willing that some men who exercise energy, daring, and prudence shall receive some fair measure of reward for their effort. In other words, we must

recognize that it is no crime to make money in railroad building, if the money is made honestly and fairly.

If this principle is not to be recognized, the money for future railroad development simply cannot be obtained under private ownership. To return the properties to their present owners without recognition of that principle simply means that the tendencies of a year ago will be revived—and inevitable bankruptcy or government ownership will again stare the railroads in the face.

If this principle of permitting capital to earn sufficient reward to attract the means for normal future railroad development is recognized, my observation is that the principle will be made concrete in some such form as the following:

1. A plan of government regulation which will be scientific and not political; which will apply the same point of view to approving rates as to approving the chemical composition of a steel rail;
2. Concentration in the regulating authority which adds to the expenses of the roads of responsibility for the rates with which those expenses must be met;
3. Provision that initiation of rates shall be in the hands of the carriers; that rates may not be suspended, except upon complaint and after a hearing, and that final decision must be made within sixty days;
4. Establishment by Congress itself of the fundamental principles to govern the reasonableness of rates, such principles to include fair reward for excellence of service, efficiency of management, and prudent foresight in providing new facilities against future needs.

If these four principles could be embodied into law, it seems to me that the public would gain immense advantage by the promptest possible return of the properties to their owners. I do not urge for one moment that the old days of unrestricted operation shall be restored. Regulation, with full publicity, has, I believe, come to stay.

But there is no use in blinking our eyes to the stern facts. If the railroads are not permitted to earn sufficient money to attract new capital, and if the risks of the business are not to

be met with adequate reward to those who take them, there is no use of again trying the experiment of private ownership. It will be doomed to failure.

A PLAN FOR FUTURE MANAGEMENT AND OPERATION OF TRANSPORTATION¹

If Congress is to solve the railroad problem and is to succeed in defining and constructing a satisfactory and enduring railroad policy for the future, it must study and must understand the real evils and inadequacies of the systems of the past under which the American people have suffered so helplessly and hopelessly for more than half a century. It must study the Interstate Commerce Commission's scathing arraignment of the New Haven exploitation in which it shows that, through questionable transactions by the directors and their financial associates, that company was looted of more than one hundred million dollars. In one transaction (the Westchester) the directors acquired for their company from some unexplained source, eighteen miles of railroad at the unheard of cost of \$2,000,000 a mile, or \$36,000,000 for the 18 miles. The income to the company from that investment has been \$1,250,000 a year less than nothing.

In another transaction, the same directors acquired for the New Haven (from apparently friendly associates) 219,000 shares of Boston & Maine stock at a cost of \$150 per share, now selling at \$30, representing another loss to the New Haven Company of over \$25,000,000. These are only two of the many transactions which the Interstate Commerce Commission considers reprehensible and concerning which it offers the opinion that the sums are recoverable by the company from the directors. But the present directors have refused their consent to the institution of proceedings by the company to recover these sums from their powerful financial predecessors. There are other equally questionable but smaller deals through which the directors and their financial associates wasted the company's millions, with the details of which I will not burden you. But I must refer to an-

¹ By Nathan L. Amster, President of the Investor's Protective Association, before the Committee on Interstate Commerce of the United States Senate, February, 1919.

other item which the Interstate Commerce Commission comments upon in its report, namely, the extension of an express contract for ten years at the time the Boston & Maine stock was brought, on a basis which the Commission says was equivalent to giving away \$10,000,000 of the company's money.

These are illustrations of the manner in which railroad directors have discharged their fiduciary duties to their companies and their stockholders, for which acts they were not punished. This accounts for New Haven stock, once ranking high as an investment and selling at over \$250 per share, selling now around \$30, a shrinkage of over \$200 per share and a total loss to the stockholders of over \$300,000,000. It is important to emphasize here that in all these profligacies and instances of reckless financing, the shipping and travelling public did not lose a cent; the losses were borne principally by the 30,000 New Haven stockholders, many of them, when their dividends were cut off, actually becoming public charges, and by millions of unsuspecting life insurance policy holders who never knew that their company owned New Haven stock. For instance, I myself never for a moment dreamed that I had any real personal interest in the New Haven shares when the slump came until one day, in looking over the report of one of the largest life insurance companies in which I carried a policy, I discovered that, as a policy holder, I too owned an interest in over 30,000 shares of New Haven stock which the insurance company held in its name. I set to work to find out what that stock cost the company, and after considerable trouble I learned, through the insurance commissioner of New York state, that the 30,000 shares, now selling at \$30, had cost the company an average of over \$157 per share, representing a shrinkage of nearly \$4,000,000. On further inquiry, I found that the President of this insurance company was, in effect, the appointee in that capacity of financiers who were in the control of the New Haven and who were the leading spirits in the underwriting and distributing of the New Haven securities at the high prices.

Another graphic illustration of the vicious system of financial control of American railroads is to be found in revelations in connection with the Pere Marquette, the C. H. & D. and the Rock Island. I will not take up your time with the details of these evidences of financial buccaneering. They are matters of

public knowledge and are recorded in Interstate Commerce Commission reports Nos. 6833 and 6834. But it is relevant at this time to touch upon certain facts in connection with the \$100,000,000 common stock, \$70,000,000 preferred stock and \$75,000,000 collateral bonds of the Rock Island Holding Co. of New Jersey. It should be remembered that the board of directors of that company was made up of some of our most important and best known bankers and financiers. On the finance committee were such men as the President of one of the foremost national banks of New York City, and other great and widely known financiers. The public was therefore justified in assuming, as I assumed when I bought a substantial block of those bonds, that the Rock Island Co. was ably and honestly financed. That such was the general assumption is evidenced by the fact that not only did thousands of poor men and women from all over the United States buy the securities, but small banks and trust companies bought them freely as well. The common stock at one time sold as high as \$80; the preferred at \$94 $\frac{3}{4}$; the collateral bonds at over \$86. Then these trusting investors woke up one fine morning to find that the great financiers whose service on the board of directors inspired them with confidence to invest in the securities, were planning a reorganization of the company, and later when these directors could not put through their intended reorganization because we strenuously opposed them, they ordered the parent company to be plunged into what the Interstate Commerce Commission termed an "unnecessary receivership," in consequence of which the securities of both companies began to tumble and soon the common and preferred stocks of the Holding Co.—once selling at \$80 and \$94 $\frac{3}{4}$ respectively—sold down to a cent a share and were not intrinsically worth that. I know it will be hard for you to believe it, but it is, nevertheless, true, that the entire \$170,000,000 common and preferred stock became absolutely worthless and the stockholders lost every cent of their investment. The \$75,000,000 collateral bonds, once selling at \$86, and to save which the holders were obliged to buy \$30,000,000 new preferred stock in the parent company at par, have today a net market value of only \$15,000,000. In other words, the equity of the \$245,000,000 face value Rock Island Holding Co. securities which once had a market value of over \$200,000,000 are selling today at less than \$15,000,000. The other

\$185,000,000 went up, as it were, in smoke. Here, too, only the helpless men and women investors were the sufferers, first by reason of the frightful shrinkage of their security values, and lastly by being compelled to pay additional cash in the way of assessments to rehabilitate the railroad company which the directors and their allied financiers first exploited, wrecked and then deserted.

Must End Financial Debauchery

I am citing these facts so that you may understand why our Association is so unalterably opposed to having the railroads returned to pre-war conditions, as interests backed by the financial oligarchy seek to have them returned. I am firmly convinced if they are returned, not only will the entire transportation system of the country be paralyzed, but the frightful financial recklessness and debauchery of the past is sure to be reinacted again and again to substantiate this view, I quote from Interstate Commerce Commission report No. 6569, page 70:

"The revelations in this record make it essential for the welfare of the nation that the reckless and profligate financing which has blighted this railroad system be ended, and until this is fully done there will be no assurance that the story of the New Haven will not be told again with the stockholders of some other railroad system the victims."

Now how are you to end this "reckless and profligate financing"; how preclude a repetition of the New Haven, Rock Island, Pere Marquette and other financial scandals, if you allow the roads to be returned to the same old system of control that made this profligate financing possible? My conviction is that you cannot *unless you legislate to put the management and the financing of railroads forever out of reach of the Wall Street banking interests.*

The theory that it is necessary to return the railroads to private control to assure competition and individual initiative is advanced by no one but those same interests that have controlled the railroads in the past, and are loath to give up the prerogative they have so long enjoyed of absolute mastery of America's \$18,000,000,000 transportation system. They knew, as does any open-minded student of railway history, that there has been no real competition or individual initiative in management of railroads for more than a generation. There was a form of competition when the railroads were first projected and when the

promoters cut rates to crush weak competitors and secure a monopoly in certain localities. Those rate wars, as they were called, were a detriment rather than a benefit to the public. We know that during that period reduced rates were made and secret rebates given to favorite and strong industries that were owned by the railroad directors themselves, or by their associates, and, this, as was later shown, had the effect of building up their own industries at the expense of the railroads and of competing industries that were eventually forced to succumb and quit.

The exposure of these glaring iniquities made it quite plain that competition in transportation was neither practical nor desirable, and Congress was compelled to amend the act to regulate commerce in such a way as to give the Interstate Commerce Commission the power to abolish those vicious and illegal practices and thus ended the so-called rate competition.

Now the financial interests are attempting to mislead the public into a belief that competition in transportation is necessary and that by returning the railroads to them for management, there would be competition, which of course is not true as the Interstate Commerce Commission will tell you.

Individual Initiative in the Past

Now as to individual initiative. This is desirable in railroad operation as in the conduct of other business. But I challenge the advocates of private control to show me a single instance where there has been any individual initiative in railroad management during the past twenty or more years. The only individual initiative we know of was in the Eastern offices where the directors of railroads and their highly paid counsel labored night and day to invent new methods of financing, underwriting and legalizing the unloading of worthless securities and railroad properties upon their own corporations, at prices that wrecked their corporations, impoverished the stockholders and made fabulous fortunes for the directors and their financial allies. This is the only kind of individual initiative there has been in railroading of the past and the only kind we are likely to have in the future if the roads are allowed to resume operations under the old form of management and financial control.

If you want individual initiative in railroads of real value to the public, you must have it at the operating end, and that you

can only hope to obtain through lifting the railroads out of the old system of financial control and putting them under the control of one large Federal corporation headed by a responsible board of governors unentangled with the old grafting system of railroad management and who will owe no allegiance to the financial powers of Wall Street. Under such management the operating executives of railroads would be directly responsible to the stockholders and to the government and would be free to carry out their own individual, well-thought-out economies without being obliged to keep an eye on their Wall Street offices and without having to fear that they will lose their positions should their proposed economies happen to effect adversely the interests of other roads in which the directors might have a larger interest, or should they happen to conflict with financial plans or deals which the directors might have in mind.

I repeat that if you intend to inject real individual initiative into railroad management, it must be at the operating end, and you cannot do it under the old system of banker control.

Some Fallacies Exposed

The Association of Railroad Executives also urge that the roads be returned to private management with certain changes such as the permitting of pooling and co-ordination and common use of terminal facilities and railroad equipment, which of course would be of great benefit if the roads were consolidated, but would prove of little value with the roads operating under the two hundred odd separate corporations. The railroad executives further suggest as a cure of railroad ills, the suspension of the executive and administrative powers of the Interstate Commerce Commission which powers, they suggest, should be handed over to a secretary of transportation, as though that would have the slightest effect in changing the fundamental conditions or in curing any of the real railroad trouble or in reaching the root of the disease that has been eating at the vitals of the railroad industry for upwards of a half a century. Furthermore how can we improve the railroad situation by taking away the executive and administrative powers from a Commission that has had years of experience and has given evidence of being the most capable and most effective governmental body known to this country, and substituting an entirely new untried and inexperienced govern-

mental department? The Railroad Executives, like the shipping interests, can only see the situation from their own view point. It should be borne in mind that railroad executives are not owners of any substantial amount of railroad stock; indeed, I dare say many of them own but a single share in order that they may qualify as director or president of their companies. The railroad executives—with all due respect to them as men—do not represent the sentiment or best interests of the stockholders when they urge the return of the railroads to former private control. Their positions carry \$25,000 to \$75,000 a year—and great prestige and power—and they naturally are loathe to see a change in railroad control which might mean the loss of their positions and the prestige and power that goes with them.

Mr Warfield's association admits that, in the interests of the public, it would be necessary to authorize the railroads to pool and enroute traffic, and co-ordinate and make common use of terminal facilities and railroad equipment. But in common with the Association of Railroad Executives, Mr. Warfield wants this done under the old form of separate and distinct corporate organization which would, in my opinion be impracticable, if not impossible, as it would create no end of dispute and no end of friction among the 200 odd independent railroad organizations. All such friction and jealousies would naturally be avoided if the railroads were consolidated and operated under one management for the benefit of all and in the interests of strict economy.

Only Solution is Unification

In view of the foregoing and all other evidence presented at this hearing, there can be no question that a solution of the long perplexing railroad problem is possible only through:

- (1) *A unified system of operation;*
- (2) *A unified system of financing;*
- (3) *A unified system of management and control by the owners of the railroads, but under strict government supervision;*

The old system has been tried for more than fifty years and has been found wanting. All the old obstacles, defects, weaknesses and uncertainties in the railroad situation that have baffled

the owners, the state and federal governments and the courts, are as potent today as they were fifty years ago. If we are to solve this problem, we must make a new and radical departure from the old system, and the time to make the move is now, while the government is still in control of the situation. If we do not act now we never will. My feeling is that if we can persuade the different interests to shed their selfish chrysalis and join hands in an effort to bring about an equitable adjustment of the railroad problem, Congress could soon formulate a railroad policy satisfactory to all concerned, and give this country a transportation system that would be the envy of the world, under which system, I venture to predict, the public would obtain transportation at a lower cost than ever before and, at the same time, legitimate and substantial dividends could be paid on capital honestly invested.

All Interests Must Work Together

In short, if you intend to solve the railroad problem once and for all, and make a good job of it, you must fuse the interests of the stockholders, the shippers, the employees and the public into a single dynamic instrument of will and effort. All must be made to understand that in dealing with the railroads, we are dealing with an industry that is the very bone and sinew of American commercial and social structure; they must be made to realize that the railroads, unlike any other industry, do not operate in specific localities, or behind closed doors, but conduct their business in the great out of doors, through every state, in every city and in every hamlet. Unlike any other industry, the railroads are not operated by their owners but by outsiders who have repeatedly exploited them and abused the public for their own gain, while the millions of stockholders scattered all over the United States, many poor and dependent upon their investments for an income, stood supinely by watching the ruin of their properties without being able to do anything to either help themselves or the public. We must realize that transportation is as essential to our existence as the very water we drink and the air we breathe and therefore should be as easily obtainable and as cheaply as human ingenuity can make it. Its flow must be free, unhampered and untrammelled by any petty selfishness or desire for gain. The following condition must be created:

(1) A sound, efficient and unified transportation system, at the lowest possible cost so that every industry in every community may be able to compete with the industries of the world.

(2) Railroad employees must be given decent pay and other encouragement so as to bring out the best in them.

(3) Capital honestly invested must be allowed to earn a fair income to induce the public to invest in railroad securities to furnish funds for extensions and improvements and enable the roads to keep abreast with the demands and the natural growth of our industries.

To bring about a condition under which this could be done, I stated before the Committee of Interstate and Foreign Commerce of the House of Representatives at Washington last year that the American public must avail itself of one of two alternatives and after a year's careful study of the railroad problem, I am still of the same opinion, namely, that either the government must buy the railroads outright at a fairly appraised value and operate them in the interests of the public, which would necessitate the government issuing and selling about \$18,000,000,000 of bonds with which to pay for the properties, and the public would run the risk of making the railroads a political issue and possibly a political football,—or the railroads must be consolidated under one Federal corporation. This new corporation shall issue its securities to the present stockholders in exchange for those they now own in the various railroad companies whose stocks are to be absorbed. I favor this alternative because it would give us all the benefits which a government owned railroad might give us without the weaknesses and defects which a government owned and government operated transportation system would be bound to carry.

GARRETSON FAVORS PLUMB'S RAIL PLAN¹

Washington, Feb. 10.—A. B. Garretson, President of the Order of Railway Conductors, appeared today before Senate Interstate Commerce Committee to support, in behalf of the four brotherhoods and the fourteen railway unions, the plan pre-

¹ New York Times, February 11, 1919.

sented last week to the committee by Glenn E. Plumb, who would have the Government own the railways, but have them operated by a private corporation composed of railway employes.

Garretson told the committee that he was the only actual advocate of Government ownership in general among the four brotherhood heads, but that the other three had become convinced that, in the matter of the railroads, Government ownership was the best solution of the rail problem. The other three brotherhood heads, W. G. Lee of the trainmen, Warren S. Stone of the engineers, and Timothy Shea of the firemen, like Mr. Garretson, indorse the Plumb plan.

"Stone, Lee, and Shea believe in private ownership as a general thing," the witness told the committee. "But they believe that Government ownership of the railways is the best thing."

"What took place during the year of the railroads under Federal control that induced railroad men to change their minds and favor Government ownership of railroads?" Senator Townsend of Michigan asked Mr. Garretson.

"Because they saw within that operation, the germ of what might be perfected," replied the witness.

He had just told the committee that "efficiency never had any test," under Government control because of the troubled war conditions.

"The wonder is," he said, "not that the railroad operation failed in many directions, but that it did as well as it did."

In the course of his testimony Mr. Garretson emphasized more than once that, while he stood for the principles of the Plumb plan, he would not say he indorsed all its details. He also made the point that he spoke only for himself in giving opinions, "for," said he, "during the discussion here before the committee things may come out that we have never talked about among the railway men."

Senator Underwood asked if Mr. Garretson considered that in case of a return to the private ownership of railroads a budget system should be adopted.

"Yes," replied Mr. Garretson, "and if it is in the power of man to do it, a plan to equalize and aid the weaker roads should be devised."

A considerable part of the witness's time on the stand was

devoted to answering questions touching on the financial status of the roads.

"It might excite derision if it was said that a walking delegate had studied the high finance of the roads," said Mr. Garretson. "But I have."

When he was asked his views upon passing laws beforehand, in case the roads were sent back to the private owners in twenty-one months, the Brotherhood President said:

"I don't believe there is a man in the country who would dare advocating turning back the railroads untrammeled."

THE MINIMA OF RAILROAD REFORM¹

Must we make a major political issue out of the railway question? Then the final outcome will be determined not by reason but by force. Misrepresentation will counter misrepresentation, fanaticism will pit itself against fanaticism, in the employ of the underlying conflict of brute interests. There will be inevitable demoralization of the service, deterioration of physical properties, and besides there will be sabotage, exerted now by the railway interest, now by the shipping interest, now by labor, all with the intent of exerting an influence upon public opinion. And the public, inconvenienced and irritated, will see sabotage where there is nothing but incompetence or bad luck. If we must settle the railway question by way of a political struggle, there is a period of economic disorder and uncertainty before us. Woe to the cities and towns that draw their life from railway transportation.

There ought to be a better way. It ought to be possible, through dispassionate examination of the opposing views, to draw the margins between them so narrowly that no room would remain for disorderly conflict. *Laissez faire* and government seizure are the opposing poles of opinion. If those two opposites had to fight the matter out until the one prevailed, there would be no possibility of a harmonious solution. But there are not many Americans who desire either. Almost everyone recognizes that the railway service is not a private interest like tailoring or interior decorating, to govern itself under the principles of com-

¹ In the *New Republic*. February 15, 1919. p. 72.

petition. The public interest is paramount. Almost everyone recognizes that the private interest in railroading is not an inherently immoral interest, like gambling or the patronage of a political machine. There are many who believe that the system of private capital has outlived its usefulness and is now an obstruction to the progress of mankind. But even among these the more fair minded are ready to admit that it is unreasonable and inexpedient to make war upon a single form of private capital. So long as the system obtains the railway property owner has the same right to consideration as any other. If he is in the way, let his interests be extinguished not at his own particular expense but at the expense of all capital, through taxation. If he is to remain, but shorn of certain privileges that other capital enjoys, such as the chance of speculative gains, let him be compensated by privileges having an equivalent market value, such as security of income. On these general principles most Americans would agree. And so long as this is the case there is no rational ground for an irrepressible conflict between the railway interests and the public.

But lack of adequate rational grounds for conflict has never prevented nations from going to war; it offers no basis for forecasting a harmonious adjustment between domestic economic interests. There need be no conflict between the railway property owners who demand only fair treatment and the majority of the general public who are willing to accord such treatment. But the railway property owners include in their number many who want not merely fair treatment, but everything besides that they can get, by whatever method. The public interest is misrepresented by some who make an abstract virtue of railway baiting, and see an ultimate value in the destruction of railway interests. The extremists on both sides are naturally more vociferous than the moderates and thus the conflict is made to appear sharper than it really is. Then there are the dogmatists on both sides, the men who assert that private ownership is always and necessarily inefficient and corrupt, and a source of political infection, and those who make similar assertions regarding public ownership. As a matter of fact, no one possessed of ordinary energy would find difficulty in assembling more "proofs" of the vices of private ownership than would suffice for conviction. And just as many proofs can be assembled on the other side. The history of private construction in America is full of shady episodes. So is

the history of public construction in Russia, Austria-Hungary and Italy. The government railways of Germany in the pre-war period were inferior to the American private railways in enterprise and operating efficiency. The private railways of France were inferior to the government railways of Germany. If we go over to public ownership American railway labor will be in politics. No doubt, but if we remain under private ownership, American railway capital will continue to be in politics as it always has been. Thus the debate goes on, to no result at all, except to prepare the way for a sharper struggle of interests than is compatible with the political health of the nation.

Neither private ownership nor government ownership is sacrosanct. They are different means to an end, the provision of adequate transportation at minimum expense and under fair conditions to those who perform the service. That end was not attained under the conditions that prevailed before the war. This everyone admits. Whether that was the fault of the railways or of government regulation or of both we cannot here inquire. It is sufficient that nobody wants to return to the old system. Important modifications must be made in it before we could be content to continue the system of private ownership.

In the first place, where the competition between lines produces serious waste of labor and capital, we must get rid of it. That means an end of the paralleling of a service which can be adequately cared for without it. It means a much higher development of cooperation between the railways for the creation of common terminals and the like. There is no technical reason why this elimination of waste cannot be effected under private ownership. But, let it be noted, every move in this direction reduces the possibility of differential gains. It tends to even out the earnings of the more efficient and the less efficient and thus to rob private enterprise of part of the stimulus to improvement which is supposed to make it superior to government enterprise.

In the second place, there ought to be coordination between the various forms of transportation. The railways ought not to be wasting their efforts in carrying overland goods that can be moved more cheaply by water. They ought not to be cutting rates in order to kill transportation by motors over the public highways. In the end there will be work enough for all the transportation agencies of the country. Railway policy ought to be directed toward building up enough business which the

railways alone can handle to occupy them fully. But such a policy would involve initial losses. They would be undertaken for the good of the country, but that is no adequate reason why the private railway should shoulder them, unless for every unit of traffic it abandons to other agencies it is permitted to levy additional charges upon the remaining traffic.

The railways must be permitted to earn profits sufficient to attract capital for necessary improvements. That means acceptance by the public of the principle that the level of rates must be adjusted to yield such return on existing bona fide investments as will hold such investments around par. But first of all the whole structure of railway securities would have to be reorganized. It is useless to attempt to make the American people accept rates that would raise the whole existing volume of stocks and bonds to par. A railway stock which ranges around twenty on the market has a valid claim to a fair return on its market value, not on its par value. We may properly be expected to pay returns on capital, not on water. Squeeze all the water out so that existing stocks and bonds sell around par; then let rates be governed on the principle that earnings must be sufficient to keep the securities at an approximately stable value and there will be no serious difficulty about obtaining for the railways all the capital they need. The new capital, issued at par, under public authorization, will equally be entitled to rates keeping it near par. So much the railway property owner is entitled to. Anything more that he may demand, either on grounds of paper values of securities, of physical valuation or of original cost, ought to be denied him. That is what he could justly claim if the government extinguished his rights by acquiring the railways. It is the real interest on which he is entitled to earn a fair return.

But this return is a minimum. If private management exhibits any advantages at all over public management there will be superior roads, earning under a given schedule of rates more than the minimum return on capital. Such superior earnings are obviously not essential to the purpose of attracting capital. Therefore no considerable part of them ought to go to capital. Rather, they ought to be distributed between the working personnel, to whose superior efficiency they are in part due, and

the government which as representative of the people should claim the gains due to general business growth.

There is no reason why private ownership, with the public interest thus safeguarded and the private interests thus fairly defined should not serve the national purposes well. Would public ownership serve those purposes better? It might, but only after undergoing a complete transformation in spirit. Before the government could operate the railways effectively it would have to accept the necessity of paying the market price for ability as for everything else required. The government would have to realize the stupidity of a salary schedule that justifies the head of the railway system in abandoning the service of the United States in order to enter the service of Mary Pickford. The government would also have to realize that a great industrial service must not become permeated with the dispirited mood of the traditional bureaus. There would have to be made room for the principle of labor organization and for some system of profit sharing that would enlist the initiative of the whole personnel. The government would have to pay interest on capital sufficient to attract such amounts as were necessary. And, in inaugurating its enterprise, the government would have to buy out private interests at a price practically identical with the values on which the private holders would be permitted to earn returns if the railways remained in private hands.

If we are to have government ownership, it must be government ownership under a new form, animated by a new spirit. If we are to retain private ownership, it must be under a new form, with a new spirit. There would remain technical, administrative and political differences between public and private ownership. But they would not be so wide as to make either intolerable to the supporters of the other. There is not space between them for a partisan contest intense enough to disrupt our political life.

SIR WILLIAM WILSON HOY ON STATE OWNERSHIP OF RAILWAYS¹

In a statement prepared for the State Mining Commission of South Africa, Sir William Wilson Hoy, general manager of South African Railways and Harbors, with singular impartiality, sets forth the advantages and disadvantages of state ownership and operation of railways. It has reached this country from the government printers in the form of extracts from Sir William's testimony before the commission.

The main advantages of state control are thus summarized:

- (a) Advantages of administration by impartial authority.
- (b) Tariffs can be designed to harmonize with national policy.
- (c) State better able to finance railways.
- (d) Profits on state lines used for benefit of the state.
- (e) States lines can be better located.
- (f) More new country can be opened up.
- (g) Closer co-operation with government departments.
- (h) Conflicting interests in private and competitive concerns avoided.

(i) Duplication, overlapping and waste avoided.

The main disadvantages of state control are as follows:

- (1) Exercise of undue political influences on management with regard to staff conditions, tariffs and general facilities demoralizes the entire railway service, impairs discipline, prevents good relations between staff and management, destroys economical working and in every way is to be deplored.
- (2) There is a tendency on state railways for individual employes who feel aggrieved to resort to political influence.
- (3) Labor, in Australia, for instance, is piling up unreasonable demands which the government grants without consulting the railway commissioner. Traders and particular interests employ similar methods to secure unwarranted facilities. Deficits have followed notwithstanding increased rates.
- (4) Political interference producing like results have been felt in Belgium, Switzerland, Austria, Italy and Canada.

¹ Railway Review, May 18, 1918, p. 714.

(5) Better results have been attained in Hungary where there is a permanent head of the railways, and in Germany, where "freedom from political influences undoubtedly accounts in a large degree for the efficiency of the railways."

(6) Under state ownership there is danger of the management being forced to provide facilities to particular sections in such matters as train service, accommodations, etc., and also in alteration of tariffs in favor of particular localities or interests.

(7) On state railways the tendency is to over-centralization and rigid uniformity. Over-centralization destroys initiative and resource, and if carried to excess tends to cripple a large organization. There is nothing inherent in state organization to prevent adequate decentralization, but the tendency certainly is toward over-centralization.

In conclusion Sir William says: "The wide conflict of practical evidence renders it extremely difficult to decide as to the relative advantages and disadvantages of state and private railways. On the whole it would seem that the problem is one to be determined according to the geographical position and the industrial, economic, political and social conditions of the country concerned, rather than according to the merits claimed for either system in other countries.

"The success or otherwise of state railways is influenced largely by the extent to which the management is freed from political influence. It is thus manifest that the problem is governed by many elements other than the purely economic.

"Experience shows that politics do creep into all state managements, irrespective of the statutory or other safeguards applied, as in the case of Australia and Italy—and that the only managements immune from interference are the autocracies of Germany and Hungary."

THE WORLD'S RAILWAYS AS OWNED, OR NOT OWNED, BY GOVERNMENTS¹

Because of the interest in governmental control of railways caused by the intention of our Government to assume such control during the war, the National City Bank of New York has

¹ In the *Literary Digest*. December 29, 1917. p. 112.

had prepared an interesting statement as to government control of railways in other parts of the world. It appears from this statement that about one-third of the railways of the world are owned or controlled by governments, and that in Europe, Asia, Africa, and the British Colonies more than one-half are government-owned or controlled. In some cases, notably in Germany and Australia, the railways "are chiefly the property of the states, or subdivisions, forming the general government; in others they are the direct property of the government." In Germany over 90 per cent of the railways are classed as government or state railways; in Austria-Hungary, 82 per cent.; in Russia, 77 per cent.; in Italy, 73 per cent.; in Switzerland, 99 per cent.; in the Scandinavian states, 44 per cent., and in France at present, 17 per cent. Other parts of the French system "have been built in part or whole by the Government and are operated by railway companies, and will later revert to the Government."

Of Europe, as a whole, 54 per cent. of the railway lines are classed in this statement as state or governmental railways, in Asia, 70 per cent.; in Africa, 65 per cent.; in South America, 31 per cent.; in North America, but 5 per cent. In Australia 99 per cent. of the railways belong to colonies which form the Commonwealth. In New Zealand 99 per cent. are governmental, in India, 80 per cent., and in the British Colonies, as a whole, 55 per cent.

None of the railways of Great Britain are owned by the Government. The entire British system, however, "is now temporarily controlled by the Government for war-purposes." In Canada about 5 per cent. of the railways are government-owned. In China portions of the railways are being constructed under agreements which will finally make them government property. In Japan 79 per cent. of the railways are now classed as government lines.

The principal countries which do not own or at least control any part of their lines are the United States, Great Britain, Spain, and Turkey. In certain South-American countries, notably in Argentina, the lines owned or controlled by the Government are comparatively few. The cost of the railways of the world, including in this term first construction and equipment, is estimated in this statement at about 60 billion dollars, of which those of Europe make about 27 billion; North America, 21 billion;

South America, 3½ billion; Asia, 4½ billion; Africa, 2 billion, and Oceania, 1½ billion.

Following is a table, compiled by the writer of the City Bank's article, showing the total number of miles of railway in each of the principal countries of the world, "at the latest date for which figures are available," and the number of miles owned or controlled by the government or the states forming the government. Approximate totals only are given for the entire world and various grand divisions. The figures show miles of road, but do not include additional mileage in the form of second, third, or fourth main tracks or yard tracks and sidings:

	<i>Year</i>	<i>Total Railway Mileage</i>	<i>State Railways</i>
Argentina	1916	22,688	4,136
Australia	1915	22,263	20,062
Austria-Hungary	1914	29,328	24,000
Belgium	1914	5,451	2,700
Brazil	1916	16,294	2,930
Canada	1915	35,582	1,768
Chile	1915	5,015	3,236
China	1916	6,467
Denmark	1915	2,455	1,250
Egypt	1916	4,381	2,401
France	1914	31,958	5,600
Germany	1914	39,600	36,550
India	1916	35,833	29,500
Italy	1916	11,635	8,526
Japan	1915	7,131	5,686
Mexico	1913	16,088	12,324
Netherlands	1915	2,075	1,120
New Zealand	1916	2,989	2,960
Norway	1916	1,973	1,685
Peru	1915	1,800	1,100
Roumania	1914	2,382	2,350
Russia	1916	48,955	37,800
Spain	1914	9,377
Sweden	1915	9,228	3,045
Switzerland	1916	3,571	3,537
Turkey	1914	4,576	1,200
Union So. Africa	1915	8,986	7,834
United Kingdom	1915	23,701
United States	1917	265,218
All other		36,120	3,710
Total		713,120	237,010
Europe		217,000	118,000
North America		323,000	15,000
South America		52,000	16,000
Asia		69,000	47,000
Africa		29,000	19,000
Oceania		23,000	22,000

THE GOVERNMENT RAILWAYS IN AUS- TRALIA AND NEW ZEALAND IN 1917-1918¹

The reports of the Railway Commissioners in Australia for the year ended June 30, 1918, and in New Zealand for the year ended March 31, 1918, have lately been issued. In Australia the result has been a net loss of £2,227,242 after providing for interest, while in New Zealand the result is a profit of £105,087 after allowing 4 per cent interest on the mean capital. The loss of £2,227,242 in Australia compares with a loss of £2,344,397 in the preceding year, so that a slight improvement has taken place. A comparison of the results in each State shows some important variations, as although Victoria, New South Wales, and Tasmania have become less unprofitable, other States have become more so—notably Queensland, where the loss of £1,025,446 for the year establishes a record for badness in the railway history of the Australian States. The accounts for 1917-1918 include about eight months' working of the transcontinental line to Western Australia owned by the Commonwealth Government, which was opened for public traffic in October, 1917. This and the other railways of the Commonwealth Government show an aggregate loss of £456,980 after providing for interest. So far as the transcontinental line is concerned the figures cannot yet be regarded as representative of its earning capacity.

I. Australia

The following is a summary of the operations of the railway systems of the Commonwealth and the Six States (not including Government tramways) for the last three years:

	1915-16	1916-17	1917-18
Gross earnings	L 21,955,215	L 23,042,813	L 24,278,156
Working expenses	<u>15,981,432</u>	<u>17,100,581</u>	<u>17,794,821</u>
Net earnings	L 5,973,783	L 5,942,232	L 6,483,335
Interest charge	7,607,300	8,286,239	8,710,577
Deficit	L 1,633,517	L 2,344,397	L 2,227,242
Ratio of working expenses to gross earnings ...	72.79	74.21	73.29

The gross earnings for 1917-1918 show an increase of £1,235,-343, as compared with the previous years, and working expenses

¹ Republished from the Australasian Insurance and Banking Record, December 21, 1918, in the Economic World, February 8, 1919.

an increase of £694,240, the increase in net earnings being £541,-103. Against this is an increase of £423,948 in the interest charge, so that the final deficit is less by £117,155 than in the previous year.

The increase of £1,235,343 in gross revenue is made up as follows: Victoria, increase £564,478; New South Wales, increase £574,795; Queensland, increase £191,954; South Australia, increase £58,019; Western Australia, decrease £60,994; Tasmania, increase £16,230; Commonwealth, decrease £109,139. The increases in New South Wales and Queensland are partly due to changes in the refreshment rooms arrangements. The New South Wales report also states that out of the increase of £574,795, in earnings, £530,939 was derived from increased rates and fares in operation.

The Victorian report, after referring to the increase which has been necessitated in other parts of the world to meet the heavier expenditure for wages, material, etc., states that prior to July, 1917, the Victorian Railway Department was receiving less revenue by £225,000 per annum than if the 1905-1906 rates and fares had been in effect. The Government approved of an increase of approximately 10 per cent, which was estimated to yield additional revenue to the extent of £500,000. The report proceeds:

The higher charges were brought into effect as from July 1, 1917, but the Government, against our advice, subsequently decided to effect a reduction in order to provide for only 5 per cent increase on the rates and fares in effect at June 30, 1917, and we were accordingly obliged to revise the charges. The reduction in the good rates was made as from April 1, 1918; in the passenger fares as from July 1, 1918, and in the wool and live stock rates as from August 12, 1918.

The various reports enter at some length into the question of expenses, and while the effects of high prices for materials and the increased rates of wages have had to be faced, efforts have been made to check the growth of expenses by careful management in matters of detail and by restriction of train mileage so far as is consistent with traffic requirements. The New South Wales report gives details of additional expenditures amounting to £453,528 as follows:

Increase in wages due to wages boards' awards coming into operation during the year, or operative for a portion only of the previous year, £88,225; automatic increases due to earlier awards, and to advances in pay approved by the commissioners, to equalize conditions created by wages boards' awards, £55,723: additional cost incurred in giving effect to the

provisions of the Government Railways (Amendment) Act 1916 for one week's leave on full pay to staff for each year of service, and for payment of full accident pay, £37,110; increased cost of coal, £93,717; increased cost of other materials than coal, £156,403; increased payments as difference in pay of the staff enlisted for service with the Expeditionary Forces, £22,350.

The Queensland report states that the McCawley Award involved an increased expenditure of £428,260, floods and cyclones an unforeseen expenditure of £61,000, and the rise in the price of stores for last year (approximately) £25,000.

II. *The New Zealand Railways*

The results of the working of the New Zealand railways for the last three years (ended March 31) are stated in the following table:

	1915-16	1916-17	1917-18
Gross earnings	L 4,548,356	L 4,800,810	L 4,687,700
Working expenses	2,910,883	2,926,864	3,042,907
Net earnings	L 1,637,473	L 1,873,946	L 1,644,793
Interest charge*	1,469,364	1,510,445	1,539,706
Surplus	L 168,109	L 363,501	L 105,087
Ratio of working expenses to gross earnings	64.00	60.97	64.91
Ratio of net earnings to mean amount of capital expenditure	4.46	4.96	4.30
Capital expenditure	L 37,335,080	L 38,187,173	L 38,798,163

*Computed by us at the rate of 4 per cent on mean amount of capital expenditure.

The average number of miles operated in New Zealand in 1917-1918 was 2,977, against 2,970 in 1916-1917, and 2,959 in 1915-1916. At the end of the financial year there were 2,993 miles open, against 2,970 at March 31, 1917, and 2,970 at March 31, 1916. The train mileage for 1917-1918 was 7,468,616, against 9,146,331 for 1916-1917, and 9,352,522 for 1915-1916.

AFFIRMATIVE DISCUSSION

THE NECESSITY FOR PUBLIC OWNERSHIP OF RAILWAYS¹

Objections to the public ownership of the railways has for the most part been narrowly confined to the dangers of the spoils system, the possible activity of a great army of employes, the alleged incompetence of the government, its unwillingness to make improvements, and the necessity of keeping alive opportunities for individual initiative in this the greatest of all industrial activities of the nation.

But these allegations, even if true, are very secondary to the main question. The most important question before any people is the preservation of industrial and political liberty on the one hand, and the maintenance and development of the state on the other. And both of these things are all but impossible under private ownership of the railways.

Political Integration of the Nation

It is assumed that the political activities of the railroads have come to an end. "We are out of politics" is a frequent assertion of officials. The vulgar corruption of a few years ago may be in large part ended by the exposure and by the laws which have been passed; but a far more subtle, insidious control is maintained over the political life of the nation by the ramified activities of the railroads and the corporations identified with the railroads. It is no longer necessary to bribe men as it was a few years ago. An examination of the legislatures of our states shows a preponderatingly large number of railway attorneys within the membership. Judges of both federal and state courts are advanced from the railway legal departments to the bench. The constitutional conventions of New York, Ohio and Mich-

¹ By Frederic C. Howe, Commissioner of Immigration of the Port of New York. In the *Annals of the American Academy*, March, 1918, p. 157.

igan recently held were filled with railway attorneys; and in New York and Michigan the constitution which issued from their hands shielded and protected not only the railroads but the local public utility corporations. Chambers of commerce are ostensibly organizations of industry and trade. Yet they either cannot or dare not represent their membership. In most instances they cannot. Instead of being organizations for the up-building of the community as they are in many foreign countries, they are too often interlaced with privileged interests that control their views on important public questions. The same is true of the press. It, too, is controlled and moulded by ownership, by advertisers and by the expenditure of millions of dollars for advertising. At the time of the threatened strike of the railway operatives a year ago it was stated that three million dollars was spent in a single day by the railways in presenting their claims.

In addition the wealth and talent of the nation is divorced from the nation. Attorneys, bankers, big business men are in constant conflict with the government. Railway officials fear regulation, taxation, measures for full crews and the like. A great staff of men is maintained for the presentation of claims before the Interstate Commerce Commission and for fighting off cases before the courts, while publicity agencies utilize every means for discrediting the government and bringing it into that distrust if not contempt which is largely the result of the innuendoes and activities of privileged interests.

Government ownership would end this conflict. It would free the talent of the nation. Men's patriotism would run free, unpoisoned by their private interests. Our city councils, legislatures and Congress would appeal to men of big talents who now are divorced from participation in politics because of the interests which they represent. The American people are not more unfit for self government than other peoples. This is not the trouble. The real trouble is that we have made it almost impossible for strong men and capable men to be identified with the state. The positions of power and wealth are to be had in corporations in constant conflict with the nation; they are monopoly privileges of various kinds which depend upon government favor. We must end this divorce. There is just as irre-

pressible a conflict between privilege and democracy as there was between slavery and freedom.

Industrial Integration

What is true of the talent of America is equally true of our industrial life. Our circulatory system is owned by eighteen hundred quarreling, competing transportation agencies, each of which is in conflict with the others; and all of which are in conflict with the producers and consumers. Transportation is run for profit. It should be the agency of service. And the great profits of the railroads are from anti-social service. To take but two from a score of examples. First, railroads are interested in long haul traffic. The community is interested in short haul traffic. More money is to be made in transporting goods across the continent than from a near-by point. Every traffic employe knows this fact. Fifty years ago food and cattle were produced for local markets, as is the case in other countries. Today the food of cities like New York and Philadelphia comes from California, Florida and distant points. Farmers in New York State cannot get transportation service. They are driven out of business. They abandon their farms. Yet while these farmers are clamorous for cars, food trains come in with the regularity of express service from Oregon and California. The same is true of cattle. At one time every farmer raised cattle, sheep and hogs. The transportation of meat was taken over by the great packers of Chicago, Kansas City and Omaha. They control the transportation of food through the ownership of refrigerator cars, and they, in coöperation with the railroads, have destroyed the raising of cattle all over the country. They compel cattle to be hauled from distant California to Chicago to be killed. It is then hauled back to California to be consumed. The farmers of the northwest ship their grain to Minneapolis to be milled. It is then shipped back to the northwest to be consumed. The same is true of almost every other industry. A large part of the traffic of the country is sent round about Robin Hood's barn when it should be sent by the most direct route possible. The cost of transportation is increased, industry is destroyed, and the whole industrial, social and agricultural life of the country is on a false basis.

Second, the classifications of railway freight are for the pur-

pose of making the maximum profit. There are hundreds of thousands of classifications. On some days a hundred thousand or more changes are filed with the Interstate Commerce Commission. It would take a week's work of a corps of men just to keep up with these changes. In European countries where government ownership prevails classifications are simple. They are printed in a little rate book that every business man carries in his pocket. They can be understood by anyone. A man knows instantly what his freight charge will be, just as he knows the cost of a telephone call.

Through these classifications discriminations and advantages are given one set of shippers at the expense of another. The old kind of discrimination is gone; but the new kind is just as harmful, and possibly just as universal as was the old. Special routings are given. Differentials, switching advantages, terminal advantages, etc., are allowed. No shipper really knows whether he is on an even keel with his competitor or not.

These are but indicative of a score of conditions which prevail; conditions which must prevail so long as transportation is an agency of profit rather than of service. The sole aim of railroad administration is to make as good a showing as possible. And railway operators are not be blamed for this. They look upon their industry just as does every other business man. But the state is interested in rendering maximum service to the largest number of people at the minimum cost. And this is only possible through government ownership.

We can get some vision of the social use of railroads by the methods employed in Germany, Australia, Switzerland, Denmark and other states where the conscious purpose of railroad administration is at all times the upbuilding of the country. Denmark utilizes her railroads for agriculture; for the placing of her goods in England and Germany in the quickest possible time at the lowest possible rates. The same is true of Belgium, from which country special trains are run to Zeebrugge, where they connect with government owned steamers for London and to Paris. In Australia the railroads are exclusively a state agency. They aid cattlemen, farmers, dairymen. Each station agent is a government employe. He receives the farmers' products. He sends them to a government terminal or to a public slaughterhouse. They are shipped even to England under government

control. The farmer gets all that he produces. He is free from discriminations, and there are no middlemen whatever between him and his consumer.

The industrial development of Germany is largely a railroad development. In Germany railroads are run for industry. The chambers of commerce and agricultural associations form a part of the administration. Special rates are given ship-builders to upbuild the merchant marine. Similar rates are given on raw materials. Industries and towns are built up in this way; while the great export trade of Germany is partly traceable to the aids and special rates made on export products. This is but indicative of the thousands of devices that can be developed for upbuilding the state when the transportation agencies are in public hands.

Integration of Physical Equipment

Under private ownership there are several hundred railroads built as a separate entity and operated as such. Each railroad has its own terminals, passenger stations, yards. One terminal may be filled with cars awaiting freight; a near-by terminal may be filled with freight clamorous for cars. Empty trains on one railroad pass other empty trains on another railroad going in the opposite direction in search of cargoes. There is terrible waste: waste like that of having a half dozen water plants in the same city; for each railroad has to have terminals, freight houses, passenger stations. It has to have docks, lighterage and warehouses. It has to be equipped for the maximum load.

It is impossible to mobilize all these agencies with hundreds of different railroads maintaining their separate existence. But two railroads enter the city of New York. The New York Central is the only railroad having a freight terminal in Manhattan and it uses every possible means to keep other railroads out. A half dozen other systems maintain separate terminals on the Jersey shore. They ought to be united into a single great terminal. And they ought all to use the Pennsylvania and New York Central facilities in New York City. In Chicago there are a score of terminals; a half dozen great passenger stations. There is tremendous wastage in real estate and in investment, and far greater wastage to the industrial life of the city.

In those countries where the railroads are owned by the gov-

ernment there is usually but one union passenger terminal. The passenger stations are commanding structures. They are the portals of the city. All railway lines enter there. This means great convenience to the public and great economy in operation.

Even greater wastage is involved in the suppression of the water transportation facilities of America. The railroads own the water fronts of our cities. They will not develop them or permit them to be developed because water transportation is cheaper than rail transportation. It costs one-seventh as much to carry freight by water as it does by rail. As a consequence coast-wise shipping is discouraged or destroyed. Our rivers carry less freight than they did a quarter of a century ago. Canals have been bought up, or through political control of the state they have been put out of business. The Great Lakes from Duluth to Buffalo, the greatest water-way in the world, is little more than a private possession of the railroads and the steel trust. The government has spent tens of millions of dollars on harbors, almost every one of which is under the control of the railroads and the iron and steel industries. A generation ago the Great Lakes were covered with independent fleets. They have been put out of business. Shipping has decreased. This water-way is almost a private possession; while great cities are unable to make use of the water-fronts for the upbuilding of industry or transportation. The State of New York has spent tens of millions of dollars on the Erie Canal. It carries less tonnage than it did a quarter of a century ago. It should be part of a continuous water transportation system from Duluth to the seaboard.

Only the government can work out an integration of rail and water transportation as has been done in Germany and Belgium, in which countries heavy bulk traffic is carried by water, the railroads being reserved for other freight. Immense economies can be made in transportation, and great savings in constructural arrangements and motive power if the rivers, water-ways and seas are permitted to perform the service for which they are naturally intended. This is only possible to the government itself.

Similar colossal economies can be brought about through the substitution of hydro-electric power for coal. There is two million horse power going to waste in New York State alone. There are rivers that could be harnessed. Even the Mississippi

could be made to operate our railroads; while the Rocky Mountains and Sierra Nevadas would provide sufficient power to free the railroads of the west from dependence upon coal. A great hydro-electric development organized in a comprehensive way would provide power and light for industry, for our cities, even for the farmers. Such a program has been carried out in Switzerland, in Bavaria, in the province of Ontario, in which states the white coal is supplanting the black coal, with immense savings to industry.

It is probable that the consolidation of the railroads, the unification of terminals, the utilization of motive power and cars to their capacity would involve savings of hundreds of millions of dollars in transportation cost. Similar economies would be made through the substitution of water for rail transport. This would amount to tens of millions annually, while the substitution of hydro-electric power for coal would mean great economies in transportation costs and a saving of our fuel as well.

Integration of Operation

The railroads of the country should be organized like an army. There should not be hundreds of different railways, each one an entity by itself. The 240,000 miles should be organized as a unit. It is far easier to mobilize railroad service where needed than it is to mobilize an army. If the cars and motive power of the entire country were directed from a single point as are the Pullman cars, the express service, the refrigerator cars, the fast freight lines, there would be adequate facilities for the needs of the country, and a great speeding up in their use as well.

Similar economies would be made in the accounting and clerical operations. Today millions of different rates and classifications are made, which require endless bookkeeping. They involve confusion for railroads and shippers. This could be done away with by unification of transportation and the simplification of classifications.

There are tens of thousands of agents who solicit freight for competing lines. There are thousands of other men engaged in attending to the details of inter-railway relations. In every large city there are a score of competing ticket offices and competing representatives of distant freight lines, all of which cost has to

be maintained by the public. Every railroad maintains a highly paid legal staff. The best legal talent of the country is identified with the railroads; and a large part of their effort is devoted to controversies with the Interstate Commerce Commission, with state railroad commissions, with controlling local politics, with looking after the political side of railroading. This involves a waste of millions of dollars. In addition, each railroad maintains its corps of highly paid officials, many of whose salaries equal that paid the President of the United States. Many of these officials are appointed through favor. These high salaried officials could be largely dispensed with if the financial motive of railroading were ended and the transportation agencies were dedicated to transportation alone.¹

Millions of dollars more are spent each year in publicity, on advertising, on making public opinion. Immense sums are paid for the stimulation of traffic over particular lines. The losses to the public from wasteful competition and from political activities are colossal.

Economies

But these economies are relatively small in comparison with the great savings that would come from public ownership. In the first place government securities bear but 4 per cent or 5 per cent interest. In peace times government securities are issued at from $2\frac{1}{2}$ per cent to 3 per cent. Railroad managers insist upon a very much higher return. If 2 per cent were saved upon the securities of the railroads, it would amount to \$400,000,000 a year, or nearly twice as much as the total budget of the Post Office Department.

In addition the railways are taking immense sums out of earnings every year and investing them in the property. This is the way betterments, improvements and extensions are made. Hundreds of millions of dollars are collected from the public each year and converted into capitalization, upon which the public is then asked to pay interest and dividends. It is probably true that billions of dollars of the present capitalization of the railroads has been taken from the people in excessive charges and converted into capital account.

¹ The salaries paid administrative officials by the railways amount to \$340,000,000 a year. As to how much of this is for salaries of men engaged in the actual operation of the properties is not discussed.

Along with this railroads are capitalizing and insisting upon payment of their increasing land values. Land connected with the city terminals and rights of way is increasing rapidly in value. Agricultural land doubled in value between 1900 and 1910. City land increases with about the same rapidity. A single railroad in one of the southern states in its hearing before the Valuation Committee of the Interstate Commerce Commission insisted that it be allowed \$880,000 for land that had cost but \$71,000.

It is probable that several billion dollars have been added to the capitalization of the railroads from the unearned increment of land and rights of way held by the railroads. This is a social value. It is created by the community. It is traceable to the growth of population, to industry, to the increasing congestion of the country. Upon this valuation, which is being increased at the rate of hundreds of millions every year, dividends are demanded, while the demand is being made that the people shall pay for a social value which they themselves have created.

All of these increments in value could be saved to the community under government ownership. Then betterments made out of earnings would be owned by those who made them; while increasing land values would remain community values, which they are in effect.

Free the Resources of America

The report of the Pujo Investigating Committee made in 1913 showed a remarkable pyramiding of banking, transportation and industry. Practically all of the great transportation systems of America were under the control of four great banking syndicates located in New York. Railroading has become an agency of finance rather than of industry. Railroads are operated from New York. They are no longer operated for the promotion of the industrial life of the state. Moreover, and this is the gravest possible menace to industrial freedom, the same group that owns and controls the railroads owns and controls the industrial life of America. Competing industries have to compete against concerns which are interlocked with transportation. Even though it should be true that the grosser violations of a generation ago are ended, there still remain endless privileges, preferences, dis-

criminations and rebates which make it difficult for new industries to operate on equal terms with the great combinations of capital. Moreover, the railroads place in the hands of the bankers control of upwards of \$4,000,000,000 annually. The concentration of banking capital is largely traceable to railway earnings, and this capital in turn is used by the great banks for the maintenance of their monopolies.

Industry in America must be free. It must be free from the menace of railroad discriminations and of credit discriminations as well. The talent of the country must be free from fear. It must be released so that it may venture freely into new industries, new mines and new ventures of every sort. For freedom is of the essence of American life. And we cannot have industrial freedom under privately owned transportation systems.

It is probably no exaggeration to assume that the productive capacity of America would be increased by billions of dollars annually if it were free from the present inadequacies of transportation, if it were assured a free and constant outlet, and if the credit of America were free to encourage a competing industry rather than repress it. Public ownership is necessary to free banking. It is necessary to free the ingenuity, talent and labor of America as well. Today mines are closed two or three days a week because of lack of cars. Industry all over the country is strangled because of its inability to transport its output. Automobiles by the thousands are driven to their destination on their own power; millions of men are unable to work full time; while invested capital is reduced to part time employment because of the discriminations and inadequacy of the transportation agencies of the country whose necessities have grown beyond the possibilities of private control.

The Experiences of Other Countries

The experience of America is the experience of other countries. Germany suffered from the same difficulties that confront us, as did Italy and Switzerland. These countries found it necessary to take over their railroads in order that the life of the nation should move freely and fully, and wherever the railroads have been taken over the industrial life of the nation has been greatly aided by the many services which the government was

able to render. Just as those agencies that are owned by the cities are operated for service and are integrated into the life of the community, so the transportation agencies become a very different thing when the motive of operation is one of service rather than of private profit. The greatest reason of all for public ownership is the change in the motive of railroad transportation.

THE RAILROADS AND THE NEW DEMOCRACY¹

Public ownership makes it possible to integrate America into a real nation; a nation in which the purse of the few is no longer at war with their patriotism. It makes it possible for Chambers of Commerce, the press and monopolistic interests to think in terms of service rather than of the protection of privileged classes whose profits and power are dependent upon their control of the government.

We can see the effect of such a revolution in operating motive in those countries where the railroads are in public hands. In Belgium the railroads, waterways, docks and interurban systems work as a unit for the upbuilding of Belgium, for making Antwerp one of the great ports of the world. There is little thought of profits. That is a secondary consideration. Hundreds of thousands of workmen are carried out into the country daily; some of them forty or fifty miles from Brussels and Antwerp, in order that they can live in the country and work in the towns. The rate of fare is negligible; far less than that on our street cars. Denmark consciously utilizes her railroads as an agency of agriculture, the dominant industrial activity of that little state. The farmer is given every facility to reach Copenhagen and the seaports. Steamships are run to England to get Danish produce to the markets. All middlemen, who in this country cluster about the railways, have been cut out. Together with an enlightened land program, the railways of Denmark have made that little state what she is.

¹ By Frederic C. Howe, United States Commissioner of Immigration.
In the Public. January 4, 1918. p. 14.

The railways of Germany are used as a strategic agency in time of peace as they are in times of war. And the after-war menace of Germany is quite largely a transportation menace. Discriminations are not given to individual shippers, but preferences are made to develop industry. The shipbuilders enjoyed free trade and low transportation on iron ore, timber, machinery and supplies. Raw materials in one section are brought at cost or less than cost to the manufacturing regions. The great industrial cities like Essen, Düsseldorf, Mannheim, harbor cities like Hamburg and Bremen, are interlaced with railway and water connections, with sidings, with terminal facilities, which make it easy for new industries to come into existence, as well as to find a foreign market for their wares. The express service, parcel post service, telegraph and telephones were all integrated into the empire for the purpose of upbuilding industrial strength.

In Switzerland, Belgium and Denmark travel is encouraged. It is encouraged for educational purposes. One can buy a ticket for two weeks for a negligible sum and travel ten miles or a thousand miles upon it. It is a universal commutation ticket. And the object is to provide cheap vacations, to encourage travel.

The main factor in the development of Australia has been state-owned railroads. Every station is a receiving agency for the farmer. He can bring a dozen chickens or a hundred head of cattle for shipment to London. Station agents give receipts for the consignments, which are sent to Adelaide; cattle are slaughtered in public slaughter houses and sold by a state selling agency. There are no middlemen, no private packers, stock-yard men to fix the price arbitrarily to the producer and equally arbitrarily to the consumer. In time of drought cattle are moved at negligible cost to pastures. In time of industrial depression workless men are taken over the state to work on projects of internal improvement. During the summer months people from the interior are brought to the seacoast for a vacation.

In all these countries freight rates are very simple. They can be understood by anyone. A very limited classification of goods suffices. In this country there are hundreds of thousands of classifications. They differ in different railroads. They are

not understood even by the agents. The object is to make them intricate. This makes discriminations possible. Under government ownership freight can be divided into just a few groups. This will free the whole producing world from its present ignorance as to railroad transportation costs.

* * * * *

The only objection heard is that the government is inefficient. Is this assumption justified by experience? Is the government a bad administrator? That there are evils in bureaucratic administration all will admit. But is the parcels post a less efficient agency of service than the express company? The fact that in a few years' time the parcels post has become a carrier of 6,000,000 packages a year indicates that the public prefers it to the private agency. And its cost is far less. Is the Panama Canal an exhibit of wastefulness or inefficiency? Has there been any suggestion of graft? Is it not run for service and is not all America proud of that achievement? Does the post-office department interfere with our politics as do the railroads? A single official receiving one-tenth the salary of a railroad president administers the postal system with a \$200,000,000 budget and with stations in the most inaccessible parts of the country, while the hundred or two hundred railroads each maintain a great staff of highly paid individuals to perform a similar service.

But the efficiency of the government is not demonstrated by the Panama Canal or the parcels post alone. We are building battleships as cheaply as private contractors. The federal government is erecting public buildings all over the country and they are the most commanding in every community. The construction work upon the Great Lakes and rivers and harbors may be governed by pork-barrel methods but it is well done. Our forestry and reclamation service has the spirit of the army. We are spending tens of millions of dollars on good roads. And, on the whole, it is being well done. Moreover, practically every railroad in the country has been in the hands of receivers and operated through receivers by the government. It is a fiction of the press that public ownership is wasteful, extravagant, corrupt. If we could make an honest comparison

we would probably find that measured even by cost the government is more efficient than private agencies, while measured by service rendered and the burden on the community, the government service is far less costly than that of railroads or private public utility corporations anywhere.

Finally, America is the only great state in the world that does not own its transportation agencies. England and France took the railroads over as soon as they entered the war. And in any state where the railroads are owned by the people it would be difficult to find a corporal's guard willing to go back to private ownership. There are complaints and protests but no demand for the old profit-making motive. And this is the best evidence of all of the efficiency, the social efficiency, of public ownership. Moreover, in all those states where the railroads, with their ramifications into the banks, press and the business interests, have been taken out of private hands, a renaissance of public spirit followed. A spirit of service, of eagerness to enter political life, to be identified with big things, took the place of the old conflict for private profit. Psychologically this is the greatest gain of all. For it means that the mind and the talent of America is now able to think in terms of America. The freeing of America is the greatest gain of all from public ownership of the railways.

WHO OWNS THE RAILROADS?¹

Our vast lines of railway, reaching from the seaboards to the remotest stretches of the Republic, constitute the arterial system of the body politic. The stream of traffic flowing along them is its social and economic life blood. Upon the regularity of this movement its vitality depends. Stagnation and congestion are equally dangerous to its health and well-being. Its vigor is regulated by the normal and constant movement of its trade currents just as the vigor and health of man depend upon the ceaseless circulation of the blood.

A system so interwoven with the national life, and so indis-

¹ By Charles S. Thomas, United States Senator from Colorado. In the *Independent*. December 25, 1916. p. 525.

pensable to its well-being, is essentially public, and therefore governmental. Its early development was largely by the state, and its final transfer to private control was a subsequent policy, originating with, and made effectual by keen business intellects, conscious of the marvelous wealth and power involved in the ownership of a nation's system of inter-communication. This power once acquired has been abused in many ways, principally by over-capitalization, discriminations against persons and localities, corruption of public servants, and combinations with great business enterprises for the absorption of rival railroads or the destruction of competition.

While it is true that these evils have been minimized in recent years thru partial public control, they are inseparable from private ownership. Hence, it must be apparent to all reflecting minds, that they have not been, and cannot be entirely removed, so long as this control is not complete, and the orders and decrees of commissions depend for their enforcement in whole or in part upon the owners in possession. The scandalous plunderings of the Rock Island, the New Haven, the Frisco, the Pere Marquette, the Alton and some other systems were devised and accomplished under the very eyes of the Interstate Commerce Commission; while the many devices for the payment of rebates, notwithstanding the mandate of the written law, are familiar to the reading public. More recently the charge that regraters of food-stuffs were deliberately withholding large consignments of provisions in the freight yards of some of the great centers, to stimulate higher prices, even if untrue, suggests an evil of terrible proportions, which easily effected under private control, would be impossible under public ownership of the railways.

Labor controversies are frequent in the railroad world. They become more formidable as the railways extend, and the brotherhoods increase. These always seriously menace and frequently interfere with essential traffic movements, to the demoralization of business and the injury of the public. Both sides or neither side may be to blame for these disturbances, but the primal fact is that while they are active they cripple a great governmental agency. This should not be possible. A strike in the Post Office Department, or in the Navy is quite as justifiable as one which suspends the operation of the natural highways. They would be less injurious, since the railway company is prone, if it cannot

settle, to resort to reprisals which only serve to increase the public suffering. This is not to reflect upon the company; for like anybody else in difficulties, it resists by whatever means it can command.

The railways are burdened with mountains of debt, which will never be paid. They impose a vast and constantly increasing fixed charge upon earnings, and these must keep pace with it, or the road collapses. To accomplish this, betterments are frequently neglected, false economies instituted, and local charges increased. Hard times mean bankruptcy and reorganization, thru which investors suffer, and absorptions of weaker by more vigorous systems are promoted. These absorptions are always attended by increased bond and share issues, which swell the aggregate liabilities to the further detriment of producer and consumer. Share speculation by bulls and bears alike receives fresh stimulus from the practice, which only the strongest systems can survive. Some of these, of which the New Haven is an example, encounter peril from their very strength, and finally go the way of all enterprises conducted for private gain, as distinguished from the public welfare.

Under private ownership, many railways are constructed in territory already well supplied with lines of transportation. This is a waste of capital and of energy. The new enterprises are seldom inspired by worthy motives. They are designed to compete with, and menace existing lines, thereby forcing consolidations, or divisions of business, which are of but momentary benefit to their patrons. Other sections of the country, poorly served, and needing better and cheaper traffic facilities, suffer thru this practice, since their needs, tho real, are less alluring to enterprise combined with private capital. They are neglected, and their needs postponed to a more convenient season, the discouraging delays of which often set the tide of improvement and of population permanently in other directions. Under government ownership these unwise duplications would be avoided and the needs of poorly served communities would be supplied by new construction.

The temptation to augment profits by "charging all that the traffic will bear," is too obviously unjust to require elaboration. It strikes equality of service squarely in the face. It has done more to create public hostility to private railway management

than any other single practise. Altho it has been largely eliminated, it cannot be wholly supprest, so long as human ingenuity, quickened by the greed of gain, possesses the instrumentalities for its exercize.

Many, if not most of the inequalities of the rate sheet have their genesis in this fact, and since they can be plausibly defended upon other grounds, they will persist until public ownership or control supplants the prevailing system.

Private ownership has fostered the creation of parasitic growths upon the transportation system. These take extra toll from the public for a service which the railways can do quite as well and which, as the nation's common carriers, it is their duty to do. I refer to the special freight lines, the sleeping car monopoly and the express companies, which have sprung into existence at the behest of railroad men, who perceiving their enormous possibilities, have organized and fastened them upon the national highways as agencies for personal gain. Their ownership and that of the railways are virtually identical. They flourish and grow fat whether the roads do or not. Their dividends are generally unfailing. They transact the most valuable and profitable elements of transportation, thus depriving the railways of essential sources of business, adding enormously to the cost of service, and diverting the revenues from the railway coffers to the pockets of their shareholders.

Public ownership would do away with these leeches of traffic, would discharge their functions directly, and would reap the benefit of their colossal incomes.

The nation has expended about \$750,000,000 for the improvement of its harbors and waterways. Theoretically its waterway expenditures have been justified by the necessity of making and keeping them navigable for the promotion and interchange of commerce and industry. As competitors of the railways for traffic, and as highways available to the water craft of all the people, they are supposed to serve a great and beneficent national purpose.

Unfortunately theory and fact are here at total variance with each other. As our river and harbor bills increase, our river traffic diminishes. This is largely due to the private ownership of our railway systems, whose vast mileage and superior equipment enable them in some localities to minimize and in others

to destroy water competition, both actual and potential. This they accomplish by unfair competition, by the absorption of river and harbor fronts at terminal or exchange points, and by refusing interchange of business. Hence our appropriations for river improvements, save as they minimize floods and freshets, are wasted. The waste will continue until land and water transportation facilities become parts of a unified system under complete government control. Germany has set us an example in this respect, which we must imitate if we are to make effectual or any use of our navigable rivers, either to relieve the congestion of the railways or to serve the communities which are directly dependent upon them.

Under private ownership and control, profit is naturally and properly the end and object of the transportation business. A great governmental agency thus becomes an asset and medium for gain and speculation. The public interest tho concededly paramount, is of necessity subordinated to the more insistent problem of profit and loss. Hence public service is not, and cannot be the end and aim of private operation. But under government ownership, public service is substituted for private gain, and the traffic of the country freed from the trammels of competition or combination inspired by the lure of profit, will be operated for the benefit of all. The aim will be to make it self supporting and leave with the business public those vast sums of money now required for dividends upon capital, both actual and fictitious, and interest upon huge bond issues, largely used to acquire competing lines, and dominate the traffic of whole sections of the Union.

No one nowadays will seriously assert that our postal affairs should be relegated to the tender mercies of private control, nor that the Government should administer them as a source of public revenue. Yet it is just as consistent, and as reasonable to so contend, as to seek to justify the nation that the great lines of railway over which our mails are carried, and distributed in common with passengers and general traffic, should be owned and controlled as they now are. Indeed the saving in railway mail contracts would very largely reduce the cost of operation, thus permitting an appreciable reduction in traffic rates. In Germany, railway mail carriage always shows a profit, instead of a decided loss as with us.

Government ownership would stabilize both rates and cost of operation. Being devoted to service and not to profit, wages would not be affected by business depressions, thru decrease of traffic. On the other hand, rates could be reduced if the times required it without a corresponding or any reduction of the wage scale. And the prodigious salaries now paid to managers, directors and other officials of the company would be eliminated by the payment of fair compensation for competent management.

The element of preparedness enters largely into the problem of government ownership. No plan of national defense is complete without it. German military efficiency is largely due to the national system of railways, which were taken over years ago, and equipped and extended for the primary purposes of war and industry. Some military experts have contended that the French victory at the Marne was due to the inability of the Belgian railways to transport Germany's vast military supplies to the front at the critical moment. The difficulties confronting the War Department last June, when the transportation of less than 100,000 men and munitions to the Mexican border was necessary, presents a mild picture of its helplessness if two or three times that number of men were required at some vital point at a time of great emergency. We might be thoroly prepared in all other respects, yet meet with disaster thru tedious mobilization, due to private ownership of the national highways. England's first step after declaring war in August, 1914, was to take possession of its railways. France did likewise. These nations have since then used them both as agencies of war and as handmaids of commerce. Their administration of all traffic movements has given full satisfaction. Private discriminations and inequalities of service have been eliminated.

So successful is the new regime that it may be safely predicted that private ownership of national highways in these great nations has gone, never to return. They will hereafter retain dominion over them and administer them as governmental agencies in common with the mails, foreign affairs, and the admiralty.

I am aware of the contention that the high efficiency of management under private ownership is not possible under democratic institutions. In a sense this may be true. But on the other hand the financial side of private management could not be

worse under public administration. Moreover, we have managed the roads in the Philippines, and upon the Isthmus, some steamship lines, and the telegraph lines of Alaska, fairly well. Our postal service yields an occasional profit now and then, and I feel sure that the men who now operate the trunk lines for their owners would be quite as efficient in the same capacity if they were officers of the Government.

Of course the Government could acquire the railways only by paying for them, and it is said that the cost would be colossal. But the bondholders own the roads, and government assumption of bond issues would not sensibly increase the public burdens. For the people pay the interest as they will pay the principal of this debt thru traffic rates, if it is ever paid at all. And the annual net profit of operation by the Government, instead of being distributed as dividends, would rapidly liquidate this debt, whereupon rates could be lowered to the mere cost of maintenance and operation.

I do not advocate government ownership of railroads as an ideal, or even as a desirable policy, if a better one were available. It encounters grave objections, and possibly it may not stand the test of experience; but I know of no other alternative. Public control of some sort is admittedly essential, and divided control by a national and forty-eight state commissions is a manifest impossibility.

Control by national commission alone, if that end could be attained, would fail, if it were not complete, and it must be incomplete so long as operation is in the hands of private owners, yielding sullen and reluctant submission to its mandates.

Far-seeing railway men long ago began to advocate national incorporation of railway companies, with enlarged control by the Interstate Commerce Commission. They have been driven to this position partly by the conflicting requirements of the state authorities, and partly by the growing convictions of the people that the roads are an indispensable agency of government, and therefore essential to efficient and satisfactory public administration; that no strictly public function should be delegated to private ownership or control, much less made the basis of private gain.

Public ownership of railways seems to me inevitable. It will not come at once. It should not come abruptly. But it is as

certain as any future event can be which depends upon human agencies for its accomplishment.

Limitations of space have made it possible only to sketch in outline, without attempting to discuss some of the considerations which seem to justify or require the public ownership of our transportation agencies. Concluding the subject it may be said that they apply quite as insistently to the acquisition of our telegraph and telephone systems. They are all governmental agencies, analogous in character, and essential each to the others for their full and fair operation and development.

THE LOGIC OF THE RAILROAD INQUIRY¹

The existing system of regulation has had many useful results, but it is fundamentally unsatisfactory, because it involves, if not an impossible, at least an excessively difficult accommodation between conflicting private and public interests. Railroads are, of course, public utilities, and have been so recognized in American law. But our legislators have adopted at different times very different methods of satisfying the public interest. At first they considered railroads as an economic *summum bonum*, whose multiplication was to be encouraged at any cost. Railroad mileage would increase in volume almost in proportion to the opportunity for private profit afforded by railroad construction and operation; and in the interest of an abounding increase the promoters, owners, and operators of railroads were granted a free hand and profited enormously thereby. The result was a wonderfully rapid growth of railroad mileage and an equally rapid growth of practices in railroad rate-making, financing and operating which were grossly subversive of important public interests. The work was then undertaken of curing these abuses by public regulation, which implied a withdrawal of the previous trust in railroad profiteering and aimed to subordinate its operation to the public benefit. During the past ten years many abuses have been cured, but neither the American people nor the railroad companies are satisfied with the resulting compromise between public and private interests. The latter declare that private capital will not invest in an industry whose owners

¹ *New Republic*. December 2, 1916. p. 108.

have so little control over its operations and reap such meagre profits out of their investment. But popular opinion is insisting on more regulation rather than less. Not only is there no disposition to renew the trust which was once reposed in the private management of railroads, but after the willingness of the railroad presidents last summer to permit the awful calamity of a complete paralysis of the transportation service, the proposal is now being made to take out of their hands the determination of the compensation and conditions of labor. The nation which was once willing to confide all public interests involved by transportation to the results of profiteering by railroad promoters and managers is becoming less disposed than ever to confide to those gentlemen any public interests.

It is this lack of confidence by popular opinion in the results of the private management of the railroads which constitutes the real malady of the American transportation systems. It has not been cured by the existing methods of regulation, and it will not be cured by any of the proposed improvements in the existing machinery, many of them in themselves excellent, which are now being proposed by the representatives of the railroads. In spite of a national incorporation law or of the regulation of interstate commerce predominantly by a central commission, investors will still be reluctant to lend their capital to an industry whose nominal owners exercise such imperfect control over its operations; and because of this reluctance the necessary improvements and extensions to the existing railroads will not be made. Yet the need of reposing more confidence in the private management of the railroads, in order to provide the needed supplies of capital, will not persuade popular opinion to grant that confidence. It will refuse, not because railroad managers, when measured by the standards of their class, are not upright and able men, but for the same reason that public opinion in other countries has uttered a similar refusal. If the business of transportation, so vital to the prosperity, the social welfare, the very safety of the community, is trusted to the results of private profiteering, some aspect of the public interest involved is certain to be sacrificed. Every phase of railroad promotion and management affords opportunities of making profits not by serving public interest but by ignoring it. Under private management the chief object of railroad management will always be to take advantage of these

opportunities of private profit. It is in effect licensed to do so by the state. Railroads attract capital and business ability in so far as they offer large rewards. Yet when large rewards are reaped from the conduct of such essentially public business, popular opinion is instinctively and justifiably repelled.

A large amount of waste, altercation and blundering will be saved if the consequences of this situation are frankly recognized. The American railroad system will never be cured of its existing malady until it is restored to an undivided allegiance. The allegiance which it formerly owed to its stockholders must be transferred to the nation. That is what nationalization of the railroads means; and that is the result which Congress has been trying unsuccessfully to accomplish by administrative regulation. Such regulation can at best only prepare the way for ultimate nationalization. Congress ought to be investigating at the present time not the questions whether the nationalization of the railroads is advisable, but the means by which the result can be most smoothly and effectively accomplished. This question of the method whereby nationalization can be obtained is the all-important one which is most in need of investigation, and not until Congress acts upon this view of the situation will the route be cleared for the adequate treatment of the railroad problem.

Any party which proposes to rule the nation must have the courage and the vision to come out in favor of railroad nationalization. It constitutes the next step in creating a national economic structure for the American democracy. It would give to the American people the same interest in the perpetuation and the success of the central government that the Constitution and the Hamiltonian financial measures gave to the property owners. They inhabit a country of vast extent which has become and remained a nation in consequence of railroad development. Their transportation system is by far their most important collective economic instrument. They not only travel by it and ship over it, but to a greater or smaller extent they live on it. If they could consider it their own, as a national service, dedicated with an undivided allegiance to the promotion of the public welfare, their sense of the value to them of the political system of the country would be enormously enhanced. The American citizen would then become a partner in a great business enterprise, whose success was essential to the national welfare. He would

vote not only as the member of a class or as the resident of the locality but as a shareholder in the national railroad system. The mere fact of his being a shareholder would not, of course, qualify him for the exercise of the power any more than the appointment of a man to public office immediately converts him into a public servant. No matter who owns the railroad system of the country, it will be nationalized, less by virtue of the fact of government ownership, than by its subsequent operation in the national interest. But the mere change of ownership will accomplish much. Although the problem of railroad nationalization will still remain to be solved, it will be restated so as to overcome the most formidable barrier to its solution. The greatest of all national interests will be removed from the region in which private profits are permissible, and transferred to the region in which profiteering is disreputable and intolerable.

PAVING THE WAY FOR PUBLIC OWNERSHIP OF RAILWAYS¹

It cannot be too often or too emphatically stated that what we have now is not the public ownership of railways. It is government control. The control is more complete and far-reaching than anything ever before attempted in this country—but it is not government ownership.

Public ownership would mean not only that the Government would control and operate the roads, but it would also draw into the public funds the earnings derived from the ownership of the roads. As it is, the Government is compelled to carry all the burdens of control and operation and does not get the advantage of the earnings of the roads.

Not only does the Government shoulder all the burdens and responsibilities of control, direction and operation, but it has also assumed other and even greater burdens. For example, it has assumed the terrific burden of rehabilitating the roads, of reconstructing and repairing the lines and rolling stock, of making extensions and improvements of the system that had been so neglected and plundered for years by private owners that they were

¹ By Carl D. Thompson, Secretary Public Ownership League of America. In the Public, November 16, 1918. p. 1408.

almost completely broken down. For this work of rehabilitation the Government has already advanced or arranged to advance \$900,000,000 to the various railroad companies.

Moreover, the Government upon taking control of the railroads had to shoulder another very serious burden that the private owners could not handle—the labor problem. A very serious situation confronted the railroads of the nation before the Government took charge. The railroad employees were very insistent in their demands for increased pay and better conditions. The companies were equally determined not to grant the demands. A disastrous strike seemed inevitable. The Government intervened, raised the wages and solved the problem.

Over \$300,000,000 of the people's money has gone into these increased wages. That in itself is a splendid achievement. In the wildest dream that the writer has indulged on this subject during the last twenty years in advocacy of the public ownership of railroads, he has urged that it would be possible to raise wages \$100,000,000 a year. Mr. McAdoo has gone us far better and made it three times that amount.

And still further the Government has assumed another burden greater by far than any of these—it has guaranteed the owners their income based upon the average income for the three years' period preceding the Government control. The owners of the railroads are assured that they have no need to worry—that they would get their earnings just the same as before. And here again the Government has assumed a burden under which private ownership was breaking down. It is a very serious question whether if private ownership had continued another year, the railroads could have paid anything like the dividends they had before. It is practically certain that they could not. And many an investor in railroad stock was very nervous about it. The Government steps in, shoulders the whole responsibility and with a stroke of the pen guarantees the whole business. That means over a billion dollars a year of interest and dividend charges. (The net earnings of the railroads for 1915-16 were \$1,029,241,-804.)

Some of us who are supposed to have more faith in Uncle Sam than the facts will warrant are a little bit anxious as to whether, giant that he is, he is going to be able to handle this task successfully.

Consider what this Government had to do. Suddenly plunged into a world war, we simply had to have an efficient transportation system. The existing system for half a century the prey of profiteers was so crippled as to be utterly inadequate. The Government puts in \$900,000,000. And we have a transportation system. Again, the railroads cannot operate without labor, and private management had so treated its workers that they were at the point of revolt. The Government steps in, raises wages, \$300,000,000 a year and the problem is solved. Again, the present owners, more than ever eager and clamorous for their profits and dividends, and knowing that a war time is the time to make great fortunes, demand their railroad earnings. Private ownership cannot guarantee them—the Government steps in and, lo, they are there—\$1,029,000,000 a year and more. Everybody should be happy. Everybody but the people who in the final accounting must pay all the bills.

How about the people who in increased freight rates and increased passenger rates which will be passed on to the consuming public in increased prices, must pay all the bills? The people must pay the \$900,000,000 the Government has advanced to the roads. The people must pay the \$300,000,000 a year increased wages to the workers. The people must pay the \$1,029,000,000 interest and dividends which the Government has guaranteed to the private owners. It is a prodigious task. Will Uncle Sam make good? Will the people or the corporations win in this struggle?

Whether the Government makes good with this railroad problem depends upon just one thing—and that is whether the Government finally secures the actual and permanent public ownership of the roads or not. If it does, it will have the means for meeting all the obligations it has assumed. If it does not, it will have incurred enormous financial burdens, which it cannot meet in any way except by increased rates, which will greatly increase the people's burdens rather than lessen them.

The advocates of public ownership have always insisted and still insist that the public ownership of railways will enable us to pay better wages, give better service and reduce rates. But we have never argued that *public* "control" of railroads would do these things. No advocate of public ownership ever argued or even dreamed that the United States Government could take

control of the railroads, raise wages, vastly increase the equipment and service, and keep on paying a tremendous burden of interest charges (unearned income) and still reduce rates.

Yet the intelligent advocates of public ownership do not object to or oppose "public control." On the contrary, they favor and support it. They do so because under the circumstances, it is necessary and inevitable. Nor do they oppose or even criticize the present administration of the railroads. On the contrary they support and uphold it because they believe that under the conditions suddenly created by the entrance of our nation into the war nothing else could be done than just what the Government did in taking over the lines. Moreover, we are convinced that thus far the problem has been handled in a remarkably wise and masterly manner. Nevertheless what we have is not public ownership and we do not want any one to confuse public *control* with public *ownership*. And we do not want any one to charge the weaknesses and disadvantages of public control against public ownership.

Everything depends, therefore, upon the outcome. If the present process through which we are passing results ultimately in public ownership of the railroads, then the Government will meet all obligations and solve the problem. But if, on the other hand, after pouring \$900,000,000 and more into the rehabilitation of the roads, \$300,000,000 more every year into increased wages to labor, and \$1,029,000,000 every year to the holders of stocks and bonds—and all of that in addition to paying all the costs of operating and maintaining the system—if after all of that the Government hands these utilities back to the private owners to go on their old time methods of plunder and profiteering, then, indeed, will this period of "*federal control*" turn out to be the most colossal injustice the Government could inflict upon a long suffering and unhappy people.

And let no one deceive himself into thinking that this may not happen. It is exactly what the railroad interests are intending to put over if they can. They have long been working to that end. They are strongly intrenched in Congress and out.

Nothing but a well organized, sustained and effective movement on the part of the people throughout the nation—nothing but a thoroughly aroused and effectively expressed public sentiment can prevent it.

WOULD GOVERNMENT OWNERSHIP PAY?¹

The instability of railway revenues is not conclusive argument either for or against nationalization. What is of much greater importance is the question of the fruitfulness of such a source of revenue. We could acquire the railways only by purchase at their full present value, and the interest on the purchase price would not be greatly inferior to the aggregate of interest and dividends we now pay to the private owners. The government would save nothing on the wages bill, nor could it afford to substitute underpaid civil servants for the high-salaried managing officials of the present régime. The government would have to learn the lesson of the ultimate economy of high salaries as well as of high wages. What assurance have we, then, that government ownership would yield any considerable surplus above interest charges and operating expenses? Such assurance we must have if we are to consider nationalization at all. After the war we shall be in no position to conduct unproductive enterprises. Our national expenses will have greatly increased, in consequence of our new national debt, our new pension list, our new defense requirements. Of our new revenue sources, the one upon which we are now most largely depending, the excess profits tax, is certain to dry up. How much more we can draw from the income tax after the war is an uncertain matter. We can increase the rates, but can we cope with evasion, when the current patriotic fervor has subsided? Perhaps. Nevertheless, we must consider seriously whether the railways could be made to yield a substantial revenue.

It appears to be the universal opinion of the men who know most about the subject that railway rates are well below the maximum that the traffic will bear. All the arguments presented by the railways in their appeal for a 15 per cent advance in freight rates were based upon the assumption that such an increase in rates would not perceptibly reduce the volume of freight offered for transportation. American railway rates are the lowest in the world. There seems to be no doubt at all that much of our traffic could afford to pay higher rates.

¹ *New Republic*. July 21, 1917. p. 322.

Steel products worth now a hundred dollars a ton are paying practically the same rate as similar products worth forty dollars a ton were paying three years ago. Coal at present prices could pay much higher freights than it paid three years ago, and the same thing is true of wheat, corn, livestock and the whole range of products whose prices have increased. The case for increased freight rates was perfectly valid, as against the shippers. They could easily have paid higher charges. What was not clear was that the shippers should be made to make over part of their profits to the private railway owners. If the railways had been public property, it would have been possible and desirable to advance rates sufficiently to raise at least half a billion in additional revenues.

Public railways would serve not merely as an efficient instrument for diverting to the public treasury part of the excess profits of boom times. They might also be employed to skim much of the gain that now takes the form of unearned increment in private hands. If an exceptionally productive mining district is opened, the rates fixed by the private railways on the shipment of its products are chiefly determined by the rates on similar products from other districts that may be much less productive. There remains to the fortunate district a surplus above expenses that takes the form of royalties or is capitalized into the value of the mines. Similar surpluses appear wherever extensive irrigation projects are inaugurated; wherever great hydroelectric plants are installed; wherever important natural resources are made available through railway construction. In the future development of the United States such surpluses are sure to give rise to an enormous volume of unearned wealth. This would not be the case if railway rates were nicely adjusted on the principle of charging what the traffic will bear. We have not hitherto permitted such adjustment. As between the private railway and the private shipper, the popular sympathy falls to the latter. Matters would present a quite different face if the surpluses secured through charging what the traffic would bear accrued to the public treasury.

Opponents of government ownership lay great stress upon the possibility that government-owned railways may charge higher rates than the private railways now charge. But there is no objection to higher rates, so long as the surplus revenues are

covered into the public treasury. Rates that do not exceed what the traffic will bear in the long run are not too high, from the point of view of general industry. They absorb only the surpluses that emerge after the necessary claims of labor and capital have been met. Such rates include as a rule a charge for service and an additional charge that is essentially of the nature of taxation. It is one of the least burdensome forms of taxation, resting mainly upon unearned increment. We have objected strenuously to the rigorous application by the private railways of the principle of charging what the traffic will bear. We did not want to place one private interest in a position to levy a tax upon other private interests. There is no valid reason why the charges of public railways should not be determined on this principle. On the contrary, the employment of such a principle, besides promising a fruitful source of revenue, would go far toward abating the evils of speculation and unmerited enrichment that have checked our progress toward economic democracy.

GOVERNMENT OWNERSHIP OR RAILWAY REACTION¹

Ten years ago many of us believed that we had found a solution of the railway problem. Under the law of 1906 we were stamping out the evils of unfair discrimination. We reposed unbounded hopes in the new power of the Interstate Commerce Commission to fix rates. What the general traffic could bear or should be made to bear no longer rested with the uncontrolled decision of private railway interests. Rates were to be made reasonable, and this meant that they were to yield a return that would cover the operating expenses together with a fair return on capital. Thus the public was to enjoy rates practically as favorable as the rates that would be fixed by the government if it owned and operated the railways itself. At the same time we thought we were escaping the political responsibilities involved in public ownership, and preserving the advantages, whatever they might be, of private initiative.

To-day we are losing faith in the solution of 1906. It is true

¹ *New Republic*, July 7, 1917, p. 262.

that unfair discriminations have practically ceased. It is also true that rates are kept at a limit that is fair enough, from the point of view of the unprivileged masses. The railways that are well managed are making profits that compare favorably with the profits earned by the modest investments of the masses. The railways that are managed ill share the fate of the incautious small investor. But under this apparently fair régime the railways seem not to thrive. We are not building so many railways nowadays as the country needs. We are not conquering grades, eliminating detours with the boldness that marked the height of Harriman's operations. The solution of our terminal problem waits. We are not even acquiring the rolling stock necessary to the fullest possible utilization of our rails.

What is wanting is capital, billions of it. But capital has gone on strike, assert the railway spokesmen. So indeed it seems. Capital has gone on strike against conditions that look to the unprivileged masses as fair. Capital demands such a relaxation of regulation as will offer it the same inducement to go into railways as into other industries. The brilliant achievements of American enterprise, during the last ten years, have been confined to fields free from regulation. Nothing has happened in the way of railway development that can compare with the growth of the automobile and the metal industries. Duplicate the conditions of those industries, and we shall soon see capital flowing in floods into the railways. There will be tracks enough and rolling stock enough to handle any probable expansion of traffic.

The argument is sound, but let us consider what the conditions of unregulated industry are that we are asked to duplicate. In the first place we may safely assert that no unregulated industry ever boomed conspicuously under a régime of moderate profits. If Henry Ford had never made more than seven per cent or ten per cent on his actual investment, the Ford car could not by any possibility have attained to its present ubiquity. If Bethlehem Steel had been held down to a modest profit it would not have become in three years a second and more grandiose Krupps. What is true of big industry is also true of little. If a provincial department store succeeds in enlisting capital to double its plant and stock, you are safe in giving the

longest mentionable odds that its past profits and future expectations enormously exceed a "fair" ten per cent. It has always been so in America. Huge profits were the lure that attracted capital into the oil, the steel, the lumber and the coal industries.

In the second place we may safely assert that "attraction of capital" into a booming industry is little more than a figure of speech. Rockefeller and Carnegie did not organize a vast propaganda among investors to secure the capital required for the development of the oil and steel industries. Most of the real capital in those industries originated in the surplus profits of the industries themselves. The same thing is true of Ford Motors and Bethlehem Steel. It is equally true of the provincial department store and flouring mill. Not that the ordinary investor refuses absolutely to bite at a mere prospectus. The history of mining promotion offers abundant evidence of the investor's willingness to plunge into the unknown. But the free investment fund is somewhat narrowly limited. It rarely exceeds the absorbing power of capital offerings that have established a reputation for security. The unprivileged masses buy as a rule Steel Corporation shares that represent capital already in the industry. In so doing they release funds in the hands of the original holders and perhaps prepare the way for vast new undertakings. But the general rule holds none the less: a rapidly expanding enterprise is provided with capital out of the vast profits it earns.

Now, are we willing to duplicate these conditions in the railway industry? Do we want to set the huge prizes that private enterprise demands in return for its fullest efficiency? Do we want the railways to collect from us, in rates and fares, the capital required for building and equipment, on which we shall be expected to pay interest and dividends in perpetuity? Incidentally, do we want to return to the industrial and political disorders of a frenzied epoch of railway development? Offer huge prizes, and men will not only work for them; they will fight for them. Under a régime of "fair profits" the railway managers set bounds to their competitive zeal. They are brothers, like Magyar and German faced by common foes. If the oppression of the Interstate Commerce Commission were lifted, it would become worth while for one railway company to seek to

aggrandize itself at the expense of other companies. And unless the character of profiteering has greatly changed, railway strategy would avail itself of whatever means, industrial or political, might fall to its hands.

Nevertheless, we must have capital for railway development. If there were no alternative it might be wise to yield to the demands of the railway advocates and permit such profits as may be necessary to break the capital strike. But there is an alternative. The United States government, our financiers are agreed, can raise forty billions, if it must, for the prosecution of the war. In all probability it will not need to raise half this sum for the war; the other half it could devote to the purchase and reequipment of the railways. No fifteen or twenty per cent profit will be required to attract all the capital needed if the government acts as intermediary. Five per cent, or at most six, would provide capital as liberally as the highest prospect of profit under private ownership.

What of future railway expansion? Is the government to continue issuing new bonds, piling up the national debt mountain high? National debt offset by equivalent productive assets may rise to any height without impoverishing us. But if we choose there is no reason why the government-owned roads should not provide themselves with new capital out of profits, or even sink the original debt from the same source. We shall in effect be taxed to pay such profits, but we shall get our money back in the shape of nationally owned productive property. The private railway companies want to tax us to provide new capital to be owned not by us, but by themselves.

There will be no profits, say the doctrinal opponents of public undertakings. If government operation is more wasteful than private operation—something that is asserted more often than it is proved—will not the increased cost of operation eat up all that is saved through borrowing capital at a lower rate? At present only one dollar out of every five earned by the railways goes to capital as profits. The rest is spent for labor and materials. If the government pays better wages and buys less skilfully—something at any rate conceivable—may not most of that fifth dollar be absorbed? Yes. But let us bear in mind that the railways are not now content with that fifth dollar. They want more,

much more; otherwise they cannot end the capital strike and give us the equipment we need.

Government ownership may not give us rates so low as those we now have. Neither will private ownership continue to give us such rates and meet adequately our increasing need for transportation facilities. What we have to choose between is not government ownership and private ownership narrowly regulated and restricted to modest profits. The practical choice lies between government ownership and private ownership largely released from regulation, freely permitted to work and fight for great prizes. And the choice will not be a very difficult one for the American people to make. It is the choice between progress and reaction.

THE OPERATING CONTRACT AND THE FUTURE¹

For me Government ownership has no terrors. I include in that statement not only the railroads, but the telegraphs, telephones and the natural resources, such as our deposits of coal, iron, copper and oil and our forests, that of right are the heritage of the entire people and should never have been allowed to go from them. This view is, I know, opposed to that held by most of you as it is contrary to that of the Security Holders Committee that I have been representing in negotiating the contract between the Government and the railroads and I would not refer to it here but for the fact that to my mind it is an essential feature of the discussion, as I am sure you will agree after hearing what I have to say: After all, whilst the lawyer sells his services to his client he does not sell his views on economic questions nor his freedom to be a loyal, sincere citizen according to his own lights.

I have, as is well known and was well known to my clients when they employed me, long been an advocate of Government ownership but have always hoped and expected that it would come through just and adequate compensation and not through

¹ By Samuel Untermeyer, General Counsel, Kansas City Southern Railway, in an address before the American Bankers Association, Chicago, September 24, 1918.

quasi-confiscation. The good faith of our Government, the rules of fair dealing and the sanctity of property rights alike demand that it shall not be less. Whether these utilities and resources, or which of them, shall be operated or developed, as the case may be, by the Government or leased to private enterprise to be conducted under Government regulation is another question which need not be here discussed.

We may as well realize that as an aftermath of this war much of the inequality and injustice of the old social order will be gone, never to return and begin now to adjust ourselves to the new conditions that are upon us.

Pray do not misunderstand me—I am opposed to Socialism—To my mind it is an impracticable, unworkable scheme of Government, a beautiful, idealistic, iridescent dream, the exploitation of which in opposition to existing theories has done much toward liberalizing our views of human rights. We should be grateful to the Socialists for what they have accomplished as an educational and restraining factor, but as a constructive policy their tenets will not bear analysis. Government ownership of the instrumentalities and resources that belong to the people and are not the result of human effort such as the public domain, is not socialistic. Wherever the Government has permitted and encouraged them to be used and developed by human effort it would be bad faith on its part to take them away either by open, or still worse, by covert and dishonest forms of confiscation.

THE RAILROAD PROBLEM¹

Before the public passes judgment upon this railroad problem there ought to be an actual test of Government operation under peace conditions, for the reason that the doubtful questions connected with Government operation can only be answered by an actual test. To make this plain, I must say a word as to Government operation itself.

And first of all I desire to impress it upon you—and it should never be forgotten in all these discussions—that the thing itself

¹ Address of Hon. C. A. Prouty, Director of Public Service and Accounting, United States Railroad Administration, at the annual meeting of the Atlanta Freight Bureau, Atlanta, Ga., January 17, 1919.

about which we are talking, the rendering of a transportation service by rail, is in essence a function of the Government. This has been so declared by the Supreme Court of the United States, and the principle is accepted in all our present-day treatment of the railroads. For that reason we determine whether a particular railroad shall be built and how it shall be built; we regulate the issues of stocks and bonds with which that property shall be financed; we fix the rates of transportation which it may charge; we determine the schedules upon which it shall operate its trains. There is no attribute of ownership or of operation which the Government is not to-day exercising in reference to its railroads. The natural, the necessary question arises at the very first step of our discussion: Why, if this is a Government function and if the Government finds it necessary in case of private operation to exercise this measure of supervision and control, should not the Government discharge that function itself?

Years ago governments employed private individuals to collect their taxes, and it was thought that this was the most economical, if not the necessary, way. Later the Government employed private capital to provide its highways and its bridges, and it allowed that capital to make a charge for the use of the turnpike and of the toll bridge. All that, for the most part, has disappeared, and it is now recognized that the Government function of collecting taxes and of providing highways and bridges is best discharged by the Government itself. Asking you to bear carefully in mind the public character of the thing which we are discussing, let me now call your attention to some of the questions which are involved in a solution of this railroad problem.

At the basis of this whole subject lies the matter of revenues. Every suggestion from the carriers or those professing to represent the carriers gives prominence to the importance of providing adequate revenues. Let us consider for a moment, from the Government and the private standpoint this matter of revenue.

And, first, the Government. It would not be possible to-day, under present world conditions immediately following the conclusion of the war, to finance the railroads of this country upon a 4 per cent basis; but if the past is to be taken as any guide to the future, if our experiences even of the present are at all convincing, it would be possible for the Government in the immediate future to convert the securities of our railroads into a 4 per

cent Government bond or a 4 per cent railroad bond guaranteed by the Government. The net revenue, therefore, which the Government requires, and the only revenue which it requires, is a sufficient income to pay 4 per cent upon the value of these properties.

Turn, now, to the private side and listen, as I have listened for many days, to the pleas of these railroad gentlemen for additional revenues. They will assure you that it is not possible to maintain their credit, to provide for the development of their properties, which must be done if the public is adequately served, without a return of substantially 9 per cent; and I am bound to admit that what they say is not without force.

The railroad finances of this country are not in satisfactory shape and they have been continually growing worse in recent years. But little money has been raised by the issue of stock. New money has been provided mainly by mortgage security. The margin between value and the amount of the mortgage has been continually shrinking. The time has already come when many of our railroad companies can no longer borrow additional funds, and the time will come sooner or later when nearly every company will find itself in that condition. Additional railroad facilities must be provided, and if those facilities are to be furnished by the railroads themselves, they must, in my opinion, either receive direct assistance from the Government or be granted the right to impose rates which will yield an income beyond a fair return upon the value of their property and beyond what they have been receiving in the past.

If it be assumed that 9 per cent is the correct figure, you have the difference between 4 per cent, which the Government must pay, and 9 per cent, which must be paid to the private owner, or 5 per cent. The value of our railroads upon the basis of prewar prices is somewhere between \$15,000,000,000 and \$20,000,000,000. Five per cent means, therefore, between \$1,000,000,000 and \$750,000,000 annually. The people of this country start out, therefore by paying the private owners of this property that sum to discharge for them this public function.

I do not say that this may not be best. Upon the contrary it may even be a good investment, but I desire to call your attention clearly to the fact that the Government could save upon

the face of things annually by operating these properties itself this enormous sum.

It is true that the effect of this might be somewhat ameliorated in various ways as I have myself elsewhere pointed out, but I know of no way which does not involve the handing over to the private owner of many millions each year which the Government itself **might save**.

Another question which must be solved if these railroads are to be passed back to their owners is that presented by the short line—the weak sister. All over this country, but perhaps especially in the Southeast, are railroads from 25 to 150 miles in length which are known ordinarily as short lines. They are independent properties, having no connection with any larger system. They connect with some trunk line, but there is no financial relation between the two.

In the past these lines have managed to eke out a precarious existence, but the recent increases in operating costs which they have shared along with larger systems have brought them to the pass where earnings are no longer sufficient to pay operating expenses. Almost every day there comes to my desk at Washington a suggestion that some one of these lines must go out of business. Its equipment is to be sold, its rails are to be taken up, for the reason that under the highest rates which can be applied revenues will not equal the cost of operation.

These lines are a vital part of the existence of the communities which they serve, and which can not normally exist without them. Some way must be devised by which their operation can be continued. I have always believed myself that the railroads of a given section, and perhaps of the entire country, must be considered as a whole. This little railroad transports the cotton grown along its line for but 50 miles, but that cotton is subsequently transported over other railroads 1,000 miles to the mill where it is consumed. The supplies which that mill uses, the cloths which it produces, are all the subject of transportation by rail. The articles which are consumed in the community served by this little railroad, the fertilizer, the boots and shoes, the groceries, everything, are only handled a few miles by that road but they have all involved before they reach that road a great amount of transportation by rail. Now, it is not possible to shake this short line free from every other railroad in that section or

in the country and say that the rates upon it should be sufficient to maintain the property. In essence your short line is a part of the railroad system of this Nation and must be taken care of as such.

What is true of the short line is true of many long lines in this sense, that owing to conditions of various kinds rates which are fair to one railroad system will bankrupt another and will yield an undue return to a third. There is no good reason why railroad A should make 20 per cent, railroad B 10 per cent, and railroad C nothing, as often happens, under a schedule of charges which must be the same for those three lines, since they are in essence competitive.

This question, which goes to the very heart of the railroad problem, which must be answered before you can properly serve the communities of this country, especially before you can provide for future railroad development, is susceptible of only one complete solution. The difficulty may be in a degree mitigated, but the only perfect answer which leaves nothing to be desired is that the Government operate these railroads as a whole, applying just and reasonable rates, and that every part of the transportation system of this country shall contribute properly to every other part.

REGULATING RAILROADS¹

The program for returning the railroads to private ownership and management submitted to the Senate Interstate Commerce Committee by Mr. Cuyler, chairman of the Association of Railway Executives, has many features of a heads-I-win-tails-you-lose proposal. The roads are to have the power of initiating rates, buying up competing roads and pooling business. The public is to be protected by a Secretary of Transportation—who is to be a member of the Cabinet—and by the Interstate Commerce Commission, which is to act as a sort of supreme court to review the actions of the roads and the Secretary. The rates must provide sufficient revenue to maintain proper service, to protect existing investments and to create credit to attract new capital. New extensions and terminals are to be

¹ Public. January 18, 1919. p. 57.

made only as certified to by the Secretary of Transportation. He is also to supervise the issue of securities. Wages are to be determined by representatives of the roads and men, but whatever the amount fixed must be taken into account in making rates.

If this plan is embodied in a bill to be presented to Congress, and there is added to it the various provisions for supervision and control that members are known to entertain, the thought will occur to some, what is the difference between this and government ownership? And the answer may be, nothing—except that the private owners retain all the profit.

There appears to have been a studied effort on the part of the railroad owners to present a plan embodying the advantages of government ownership for the people and private profits for the stockholders. But there is one very essential point that has not been met; that is the control of the Secretary of Transportation. His opinion will be of enormous importance to the railroads as well as to the public, for no matter how explicit the law, its interpretation will cover a wide field; and its application may serve many ends. The administration of such a department would be far different, for instance, when headed by a man holding the opinions of Senator Penrose than it would be if administered by a man entertaining the ideas of Frank P. Walsh.

This would bring the roads back into politics with increased virulence. The masses of the people would want some one in the Cabinet able and willing to protect their rights. The railroad owners would have the same desire for a man who would favor their interests; and every election would involve a struggle between these two interests to control his appointment. Instead of taking the roads out of politics, therefore, as contended by those opposed to government ownership, they would be always in politics, and in the worst possible form. For, whereas the activities of employes on government roads would necessarily be open to public knowledge, the doings of the owners would be under cover.

Persons who are at all acquainted with the past operations and activities of railway owners in politics cannot doubt that they would be as much interested in the future. During the first McKinley campaign the railroads offered the Republican

campaign managers all sorts of privileges, and denied the Democratic managers every service they dared withhold. Railway employes were transported free from all points in the United States to Mr. McKinley's home in order that they might be brought under the influence of the spirit generated by the McKinley excursions.

Granted that it would be possible to prevent such gross partiality between those friendly to the roads and those standing for the rights of the people, it must still be recognized that the largest single financial interest in the country would see its own and kindred monopoly profits at stake, and so throw all its enormous influence to the support of politicians who would favor it when appointed to office. It would be repeating on a larger scale what is being done in every town, city and State, where the regulation and control of a franchise utility is under consideration.

This is the point where the program of the railway owners fails. It makes no provision for taking the railroads out of politics for the very good reason that there is no such plan, excepting to put the roads under the control of the government. There is no politics in the post office nor in the water supply system of the cities; but the gas companies, electric lights, telegraph, telephone, express and railroads are never for a moment out of politics.

There is nothing in the proposals submitted by the railway owners to warrant a rejection of Mr. McAdoo's plan of extending the time of government operation until its virtues have been proved and the public has been given a demonstration. Congress should support the five-year extension plan.

THE RAILROADS MAKE GOOD¹

We have completed a year of public control of the railroads, and are now in a position to estimate its value. Upon the experience of the past year and that of the immediate future the people of the United States will judge the case for public ownership. If the railroads have been well and efficiently managed, the argument

¹ By Hugh Reid, Private Secretary to Louis F. Post, Assistant Secretary of Labor. In the Public, February 1, 1919, p. 106.

for retention will be strong. If, on the other hand, their operation has been wasteful, no theoretical consideration will outweigh a practical demonstration of inefficiency. The situation under which the railroads were taken over is well known. The transportation systems of the country broke down in the midst of one of the worst winters in all history. At the time the public authorities stepped in there was an unprecedented tie-up. Every road, terminal, and roundhouse in the country was congested with loaded cars, frozen and damaged locomotives, and equipment which every day became more and more hopeless from the standpoint of operation. The amount of traffic handled had fallen to the lowest possible ebb. We were obligated to deliver large quantities of food to our allies, and obligated to send over large bodies of troops, with practically no prospect of keeping our promises. Passenger travel was precarious, and trains between Chicago and New York were arriving anywhere from four to twenty hours late.

The manner in which the Railroad Administration handled the situation was told before the Reconstruction Conference at Washington last week by Mr. Frank McManamy, Assistant Director of Operations, U.S. Railroad Administration. Mr. McManamy spoke neither for nor against any particular policy with regard to the future conduct of the railroads, but he presented some figures which carry a positive implication. During the month of January, for instance, the production of bituminous coal was 6,594 carloads less than during the corresponding month in 1917. Parallel estimates furnished by the Fuel Administration indicate that this shortage was almost wholly due to insufficient car supply, for mines as a rule have no place for the storage of coal. When cars are not available miners must be idle. In consequence, some of the most productive mines in the country were operating only one day per week. Under private control the situation had been growing progressively worse, and the deficit had reached the point indicated in January. During February the situation had been so far improved that not only was there no deficit as compared with February of the preceding year, but there was an actual increase of 24,366 carloads. The rapid betterment of the coal production situation is illustrated by the following table, which shows the increase in the production of bituminous coal in carloads over the corresponding month of the

previous year, by months, up to the conclusion of the armistice:

March.....	38,202	July.....	150,288
April	64,824	August.....	130,686
May.....	87,036	September...	128,942
June.....	92,734	October.....	89,882

In other words, entering the situation at a time when there was a serious deficit, the railroads under public operation not only wiped out the deficit within a single month but produced an actual gain to the country during the remaining ten months of 73,083,300 tons.

With respect to foodstuffs the situation was even more threatening. It was necessary, in order to meet our obligations, to deliver 1,160,000 tons. During January this had fallen as low as 750,000, a net loss of 410,000 tons. By March, under the genius of unified operation and patriotic direction, not only was the shipping capacity fully taken up, but there were 6,318 car-loads more than it was possible for shipping facilities then available in harbors to handle.

This sort of improvement was possible only through the forced unloading of cars at the terminals. Under the old decentralized method the situation had become hopeless, and the attempt of the private companies to centralize their operations in the hands of a war board of five men had been merely a policy of dalliance. At Hog Island shipyard 5,000 cars in excess of the ability of the company to receive were choking the yards. There was no check whatever under the old system upon the ability of the shipper to secure empty cars for loading. The result was that many shippers had cars which they could not possibly fill, while others were clamoring for rolling stock. A permit system under which the consignee must first show an ability to use the rolling stock soon corrected such inequalities and placed the railroad facilities only at the disposal of those who were in a position to use them.

Not only had the old control resulted in the decrease in production of coal and other valuable raw materials, but there had been a corresponding lowering in the production of industries which were dependent upon raw materials of this nature. Seventeen per cent., for instance, of the blast furnaces of the

country were closed up on January 1 and 22 per cent. on February 1. Inside of two months the situation was again normal.

Having in mind the tremendous troop movement which occurred during the early months of 1918, we may now contemplate what might have happened had the old control continued. As it is, we know that under public operation the roads handled the largest volume of traffic in all history; 4,073,255,103 passenger miles is the total increase in passenger transportation; and 5,553,470,440 the total miles for freight. There were successfully handled on an average 625,434 troops per month. Up to the conclusion of the armistice the total number amounted to 6,496,150 men. And so well and so efficiently was the whole operation conducted that there were only 16 accidents which were of a serious nature or resulted in injury.

The issue appears, in fact, to be one of efficiency. It is true that the Railroad Administration has been able to build cars and locomotives and to have these things at its disposal where they were never available before. However, it was not possible to produce these things in a single month, and the sudden change in the situation from January to February argues for the efficiency of centralized control. The plain fact is that under private control the companies were unable to agree with their employees, and their equipment was deteriorating at a tremendous rate per day. The result was that neither could new equipment be manufactured nor old equipment be repaired.

The Railroad Administration was able to agree with employees where the companies had not been able to agree before. Within sixty days of taking over the roads, they were successfully handling the largest volume of traffic in their history. In this respect the public policy seems to have been the more profitable, for under it the men voluntarily agreed to an increase of 15 per cent. in working time, and this increase operated to produce an increase of over 20 per cent. in material. As a consequence we are entering the new year with last year's hopeless situation replaced by a situation where there are more locomotives in reserve than any possible emergency will require. In December of 1917 we were faced by a strike. Today reformed working conditions, increases in pay, and proper methods of adjudicating grievances have resulted in a stimulation of morale that has removed even the possibility of a strike.

Those who are skeptical of the ability of public agencies to handle large business enterprises will, of course, point to the financial deficit, which requires consideration. It is to be noted, however, that an equalization of the payments to the various roads would more than wipe out this deficit. The Pennsylvania Railroad, for instance, is receiving a return equal to 11 per cent. of its investment, and many of the others are receiving 13 to 15 per cent., and in one case even as high as 20 per cent. Furthermore, the economies so far installed by the Railroad Administration are apparently a promise of further economies which may in time wipe out even the present deficit, based as it is upon too liberal compensation. The common use of terminals, for instance, for freight and passengers has already resulted in a saving. Repair facilities at 417 points have resulted in a saving of \$2,363,535. The further possibility of economy is illustrated by the fact that \$93,490 was saved at a single point. In the consolidation of ticket offices there is an annual saving of approximately \$85,000,000.

For the first time we have a definite interest in the technical training of employees. It is announced that technical training is to be established so that the service will be improved. With regard to rates, it is of course popular to point out that the companies could have achieved like results had they been granted similar rates. There is nothing in the records of the companies to justify this assumption. It was admitted, even, by railroad men themselves that the roads were failing to render service, in spite of the fact that their earnings were the largest in history. If under the stimulus of the largest returns that had ever been received the private systems of the country did not render adequate service, it cannot be well argued that a doubling or trebling of that return would increase their patriotism in the slightest. It is charged that the roads could not borrow money. This was in itself largely due to the fact that they had cried "Wolf" for so many years that no one believed them when the wolf came. The roads were so badly mismanaged that we had the somewhat contradictory phenomena of rising dividends and falling stock values.

To sum up, here seem to be the facts. We began 1918 with the railroad systems of the country broken down, unable to operate, and small prospect of their being made operative. We be-

gan it with strikes and labor disturbances in sight. We began it with the prospect of defeat to ourselves and our associated belligerents, because of the failure of our transportation facilities. We begin this year, on the other hand, with our transportation facilities well ahead of our possibilities for production. We begin with an operative equipment unsurpassed in the world. We begin it with industrial peace and harmonious labor relations everywhere in our railway systems. We begin it with a victory behind us which is in itself a triumph of transportation, for, in the language of Mr. McManamy, "the Navy may have put them across, but the Railroad Administration put them aboard."

As compared with the old system, public operation has proved its efficiency. As to the ability of a federal agency to put the roads upon a sound financial basis we have no demonstration, but the economies of centralized control are rich with promise. Certain it is that private enterprise has failed. We have seen, as Mr. David J. Lewis has pointed out, the spectacle of 140,000 miles of railways in bankruptcy proceedings, and \$8,000,000,000 of capitalization with them. The student of economics will conclude that, whatever the Railroad Administration may do, it cannot do much worse than that.

THE RAILROAD ADMINISTRATION TO DATE¹

The United States Railroad Administration is making a few economies. Sixteen and a half million dollars will be saved this year through the closing of unnecessary freight and passenger offices; seven millions will be saved on advertising; almost five millions on the salaries of officers; a million and a half on legal expenses; perhaps another million (or more) through the Railroad Administration becoming its own insurer. From these resources there will be a net gain of some thirty million dollars.

It is a paltry sum, representing less than $\frac{1}{6}$ of 1 per cent of our total railway capital. It will go only a short way towards meeting the five hundred millions of new expenditures for increased wages of railway employees. This thirty millions a year is significant, not because it proves that the Railroad Ad-

¹ By Walter Weyl. *New Republic*, November 9, 1918. p. 43.

ministration has a frugal mind, but because this saving arises out of the newly created unity of the railroad system and, as such, is merely a first small effect of a vast change.

We have not yet grasped all the implications of this unity. Until December 26, 1917, the railroads lived under a regime of *forced dissociation*. There were 2,905 separate companies (of which 185 operated major systems) and none of these might fully cooperate with other companies. Each took care of itself, got all the traffic it could, advertised, pulled wires, competed. The system was an ordained and highly organized chaos. It is out of a change in this system that these first small economies are coming. They arise, not because the present managers of the railroads are wiser than were the managers a year ago (they do not pretend to be) but simply because the new managers are dealing not with hundreds of units but with one unit, the American railroad system.

Given this unity, savings are a matter of course. A year ago the Erie Railroad was paying high salaries to employees whose sole task was to urge you to travel by the Erie or ship freight by the Erie instead of by the Pennsylvania or the New York Central. The companies engaged intelligent and capable men to take business away from each other. Competitive advertising was on the same plane; Phoebe Snow insisted on your travelling by one line instead of another. Time-tables also were competitive, wasteful and aggressive. Each railroad wished to run its own passenger trains at the best hours with the result that all were run at the same hour. Two twenty-hour trains left Chicago at the same hour and arrived in New York at the same hour. Between Chicago and St. Paul, Chicago and St. Louis, Chicago and Kansas City, there were in each case from three to five trains running at the same hour and, therefore, running half-full or almost empty.

As the public did not need all these trains, the Railroad Administration telescoped them. It made one train run where three ran before; it ran as many full trains as the traffic warranted—and no more. It also consolidated certain passenger stations—allowing, for example, travellers on the Baltimore and Ohio to use the Pennsylvania Terminal at New York. The Railroad Administration thus eased the transition from a system of competing empty trains to one of consolidated full trains.

It is revolutionary and yet it is only common sense. It is merely doing what the railroads themselves might have done had they been allowed to pool their interests and form a single operating unit.

Critics of the Railroad Administration have raised the cry that the trains do not run quite as many miles as they did a year ago. These critics seem to impute to the railroads a sort of locomotor ataxia as an immediate result of government management. It would be a fair enough criticism if the experience upon which it was based was not too narrow. Actually, the train mileage on American railroads was only 3.1 per cent less during the five months, January to May, 1918, than during the same period in 1917. As the trains ran 2.7 per cent heavier, the actual diminution in traffic (in revenue ton mileage) was practically nil, amounting to only six-tenths of one per cent. Moreover, even this diminution is only temporary. In due course, the train mileage will increase, whether under private or government management, as it has always increased in the past.

But even if the train mileage had really decreased, what difference would that make? Statisticians often speak of train mileage as though it were an absolute good, as though the trains should race day and night over the endless tracks like a bicycle rider in a six-days' tournament. But what is really wanted is not mileage but necessary transportation. If we can effect the same result by hauling a train a hundred miles instead of a hundred and fifty, let us by all means save the extra fifty miles.

There is opportunity for such saving. A few years ago freight trains took impossibly long journeys for incredible reasons. Each railroad wished to haul each shipment as many miles as possible in order to earn a larger share of the freight rate. Today these long routes are being shortened. The route now used from Los Angeles to Dallas and Fort Worth is more than 500 miles shorter than was a route formerly much used. Another route has been shortened 880 miles, another 201, another 110, another 289 miles. All this shortening reduces train mileage (and even ton mileage) but the same traffic result is attained with less hauling. The Railroad Administration, in other words, is doing *more work with less effort*, is running fewer unnecessary and more necessary miles, just as it is filling

train space more economically, increasing loads, reducing wear and tear and lessening waste. It is doing these things because they are obviously sensible and because special interests of individual railroads no longer work against the general railroad interest and against the general interest of the nation.

Having no competitors and possessing the advantage of unity, the Railroad Administration can do things which the individual railroads would never have dared attempt. Formerly cars were held out of use by influential shippers who wished to save warehouse expenses, and the railroads did not protest; today the Railroad Administration simply empties the cars and (economically) delivers the goods. Because it is one great business and only one, the Railroad Administration will also be able to effect immense savings both in the manufacture and in the repair of rolling stock by standardizing locomotives and freight cars. Today there are two thousand kinds of freight cars; tomorrow there will be only a dozen or two dozen, with interchangeable parts.

An even greater economy is being sought by making expenditures for all railway betterments on the theory that these various lines constitute one railroad. Formerly each system expended its capital in its own sole interest, and much investment was a mere competitive expenditure intended to injure a rival line. On February 2, 1918, the Railroad Administration in requesting lines under federal control to present budgets, suggested that all expenditures should be in the interest of the whole railroad system. "Projects," said the Director-General, "which might be regarded as highly meritorious and necessary when viewed from the separate standpoint of a particular company may not be equally meritorious or necessary under existing conditions, when the government has possession and control of the railroads generally, and therefore when the facilities heretofore subject to the exclusive control of the separate companies are now available for common use. . . ."

A final advantage of unified control has proved to be the ability to concentrate unlimited resources on a limited task. To get a hundred railroad companies to agree upon a policy, by which some will gain and others lose, is difficult if not impossible; to gain the adhesion of a single Railroad Administration takes no longer than to convince one man.

In January, 1918, the coal situation became critical and because of bad weather the railroads hauled 79,000 carloads of coal less than in January, 1917. Immediately, the whole resources of the railroads were mobilized. In February, despite continued bad weather, 31,000 more cars were hauled than in the year before and each month thereafter the railroads increased their load, until by the end of July they had transported 22,000,000 tons more than during the same period last year. The whole railroad system had worked as a unit. Similarly in the immense transport of troops, or in lumber the unified railroads revealed the vastness of the power concealed in the American transportation system, incomparably the greatest industrial entity in the world.

How vast that power is we are unable to grasp despite deafening statistics simply because it is impossible to envisage so tremendous a thing. We glibly talk of four hundred thousand miles of track, of one million seven hundred thousand employees, of two million four hundred thousand freight cars, of twenty billions of capital, of tens of billions of passenger-miles, of hundreds of billions of ton-miles; the result is mere incomprehension. Yet here is a single illuminating and comprehensible exploit of our railroad system. In June of this year over two hundred and fifty thousand freight cars were hauled past the station at Columbia, Pa. Every hour, morning, afternoon, evening, night, over three hundred and fifty cars, a car every ten seconds, day and night, throughout the month, and probably, month after month. In that one month of June, past that one station two thousand miles of solid freight trains were hauled. Year by year new records are made for loading coal, for unloading coal, for transporting ore, steel, lumber; and despite the boundless wastes and inefficiencies of the old system, the gigantic, restless railroad organization of the United States accomplishes yearly new and amazing tasks. What will it not accomplish under unity, with intelligence and patriotism at the helm, with no sundering special interests and with the whole vast elastic system working to a single end!

All this, however, is for the future; the transition to a successful unified control cannot be expected to effect itself in a few months. In the meanwhile there will be criticism, fair and unfair. In the next months we shall hear much of the draw-

backs and failures of government management. It will be urged that the Railroad Administration has enormously increased expenditures; that the service is bad and fares and freight rates are high. If during the winter the system partially breaks down because of bad weather, defective rolling stock and a confronting task greater than any the railroads have yet been called upon to face, the sentiment against an indefinite continuance of government management will be reinforced. In defense of the Railroad Administration, it will be claimed that increased rates and deficits are due to higher costs of materials and to necessary increases in wages while the poorer service is due to a war which is no respecter of passengers or shippers. Given the war, the railroad service would have been no better under private management, if as good.

It is too early today, and it may be too early this winter, to make out a clear case either for or against a permanent government management of American railroads. What seems already obvious, however, is that the newly created unity of the railroad system must be preserved in one form or another. We cannot return to the era of forced dissociation. The railroads have been forbidden to pool and been ordered to compete, but they cannot compete and they must pool. But to permit the railroads to pool, to allow the formation of one gigantic private twenty thousand million dollar unit, with all that its financial control would involve—

The present liaison between the government and the railroads has been likened to a trial marriage, a marriage with a time fuse. The affectionate couple are to be automatically put asunder on the last day of the twenty-first month after the declaration of peace. So says the law. But a law, however explicit, may be changed if it does not meet conditions and fulfill expectations. Today it seems probable that the *law* will be changed unless one of two things happens: either that the railroad companies propose a method of private management which will preserve the advantages of unity and yet forestall the danger of a gigantic and uncontrollable monopoly; or else that the Railroad Administration breaks down utterly under conditions which would condemn government management permanently.

The second alternative is unlikely. The trial marriage has

as yet developed no violent antipathies or invincible incompatibilities. The martial record has been good. There have been excellent intentions, adequate foresight, intelligence and honesty. Above all the record has been only one of good beginnings.

Reviewing this brief history, there appears no conclusive reason why a continuance of government management for a period longer than that contemplated by the law should be considered improbable.

NEGATIVE DISCUSSION

WHAT GOVERNMENT OWNERSHIP WOULD MEAN¹

Government and Business After the War

Never since the destruction of the ancient regime in France by the Great Revolution have the governments of civilized countries taken such extensive control of business as in this war. Is government intervention in business to continue after the war on anything approaching the present scale? If so, is it going to take the form of ownership and operation of large industries, or of restrictive control of them, or will it take the form of strict control for the protection of the public, supplemented by helpful co-operation in solving business problems?

I believe it is desirable during the war to operate our railways under a single direction, and that to protect investors while this is being done it is necessary to guarantee the financial return of the companies. I do not believe it was necessary or desirable for the government to assume the complete control of operation it has. Now that this has been done, however, it is the duty of every citizen, whether an officer or employee of the railways, or a user of their service, or, like myself, a humble commentator on their affairs, to do all possible to make government control a success.

Last winter, soon after government control was adopted, and the railways were struggling with the largest and most complex traffic, and the most adverse weather conditions ever known, the charge was made and widely circulated that railway officers were "lying down" to discredit government control. I know many of the railway officers of this country, high and low, and I know their attitude and spirit as well as any man living, and the most

¹ An address by Samuel O. Dunn, delivered before the Buffalo Club, Buffalo, N. Y., on March 30. Reprinted from the *Railway Age*. April 5, 1918. p. 831.

fitting comment I can make on that charge is that, in the language of Shakespeare, "It is an odious, damned lie; upon my soul, a wicked lie." There may be railway officers and employees who are so selfish or disloyal that they want to see government control fail; but with negligible exceptions they desire, for patriotic reasons, to see it, and are working to make it, a success.

Some people contend that if government control is a success it will afford a conclusive argument for government ownership. It is impossible to accept that view. The results of operation of the railways under government control in war should be better than the results of government operation probably could be in peace. The officers and employees are inspired by more patriotic zeal than they would be in peace, and the Railroad Administration probably will not be subjected to the political and other vitiating influences that it would be in peace. Therefore, the results of government control cannot afford a basis for a rational argument for government ownership.

Effect of Government Ownership on Other Industries

If government ownership of railways should be adopted, the railways would not be the only class of concerns directly and indirectly affected. No argument can be made for government ownership of them which cannot be made with equal force for government ownership of telegraphs, telephones, local public utilities, coal mines, lake and ocean shipping, and many other lines of industry. If, by adopting government ownership of railways, we break down the dam which holds back the rising tide of radicalism, the country will be fortunate if it is not speedily overwhelmed with a flood of socialistic measures which will revolutionize our economic and industrial system. The railways constitute in value one-twelfth of all the property in this country. If the public could be convinced they should be taken over, what argument could be effectively made against government acquisition of other large classes of property whose purchase and management would present problems much less complex and difficult?

Even though state socialism should be carried only as far as the ownership and management of the railways, the effects would be felt by every kind of business concern and every class

of our people. The railways are the largest consumers of coal, of lumber and of iron and steel. They are among the largest advertisers in the newspapers and magazines. Since government control was adopted, many of those who produce and sell to the railways have become aroused to the fact that that control has given the government a power almost of life and death over their businesses. When a large number of concerns are buying things, and a large number are selling them, there is competition on both sides. When one concern is doing all the buying and many are competing in selling, all the advantages in the negotiations are on one side. The situation which has developed under government control has caused great anxiety among concerns having billions of invested capital and hundreds of thousands of employees which have been established and built up to produce and sell goods to railways. They have become aware that a permanent government monopoly of railroads would have a meaning and an effect for them which had never entered the minds of most of them before.

A Gigantic Government Monopoly?

On the other side are the patrons of the railways, the traveling and the shipping public. Under government ownership they also would have to do business with a single gigantic railroad monopoly. Now, most of us believe that there has been too much of certain kinds of competition between railways, and that it has resulted in wastes and other evils. Many, in fact, believe that the system of railroad regulation and management which prevailed before the war was extremely deficient, and that if the railways are to be returned to the operation of private companies both our system of ownership and our system of regulation should be changed. But there are few who, as patrons of the roads, can contemplate with equanimity the prospect of their being welded permanently into a single great monopoly owned and managed by the government.

What effective means of protecting their rights and legitimate interests would those who sell goods to the railways and those who buy transportation from them have if this great monopoly were disposed to abuse its power? None, except that of resorting to political action of some kind. What means would railway employees have of protecting themselves if this great monopoly

should be disposed to abuse its power? None, apparently, except strikes or political action of some kind.

Looking at the matter from the standpoint of the public as a whole, it is evident that the main thing it wants from railways is transportation service adequate to move the available traffic satisfactorily and to develop the resources of the country. The nation has suffered recently from inadequate service; and the losses it has incurred as a result have exceeded what a higher scale of freight rates would have cost it over a long period of years.

No system of railways can be said to be a success which does not maintain a fair and reasonable relationship between the rates it charges and the service it renders to its patrons, the wages it pays to its employees and the return which it earns for its owners. This is true whether the railways are owned by private companies or by a government.

Now, what one thing is absolutely essential to enable a railway system to render good and adequate service, to make reasonable rates, to pay reasonable wages and to earn a fair return? The answer, of course, is far-sighted, enterprising and efficient management. But it is contended government ownership would possess some advantages which private ownership cannot have. The government, it has been argued, could raise at 3 per cent all the capital required to buy the railways and increase their facilities. Facts recently have exploded this theory. The government since we entered the war has not raised one-fourth as much capital as would be required to buy the railways, but already it is preparing to float a large loan at $4\frac{1}{4}$ per cent, and it would have to pay more if the people were not impelled by patriotism to make it loans at an artificially low rate. There is not, as some seem to think, an unlimited supply of 3 per cent, or even 4 per cent, capital. Most capital in this country prefers investment in speculative enterprises offering a chance of large returns to investments offering a certain but low return.

Good Management Absolutely Essential

It is questionable whether even before the war our government could have raised enough capital to buy the railways for less than $4\frac{1}{2}$ per cent. On this basis the saving made by substituting the government's credit for that of private companies would have been small. Furthermore, for some years the pre-

vailing rate of interest probably will be high, and for the government to acquire the railways soon after the war would be to saddle itself with inflated fixed charges for many years to come.

Again, it is said the government could operate the railways as a single system and avoid the wastes incidental to competition. But it is extremely doubtful if centralized management of the railways as a single huge monopoly in time of peace would have any advantages. Our railway system includes 260,000 miles of line. This is five times more mileage than there is in any other country. It is one-third the mileage of the entire globe. Perhaps the present system of centralized control will point the way, but the problem of organizing and managing such an immense mileage operating over such a vast area as a single unit so as to get good results seems almost insoluble. Even under government ownership it probably would be necessary, in order to get the best results, to divide this system into several parts and operate them almost independently. If you should divide our railways into ten units of equal mileage, each unit would have more mileage than the railways of France, or those of Great Britain and Ireland, or those of Prussia. If you should divide them into five units of equal mileage each unit would have more mileage than the railways of any entire country except the United States. Even under the most skillful and energetic management possible all the benefits gained by complete consolidation of our railways probably would be more than nullified by disadvantages inevitably arising from the unwieldy magnitude of the undertaking.

Furthermore, whatever rate might be paid for capital, and whatever might be the advantages of consolidation, there is no adequate substitute, in the railroad or any other business, for far-seeing, enterprising and efficient management. A weak and short-sighted management will always fail to profit by its advantages, and at the same time will fail to increase economy and efficiency in many directions in which a strong management would increase them. After all, therefore, the vital question is whether private management, if given a fair chance by government regulation, probably would be more or less far-seeing, enterprising and efficient than government management. If private management, if given a fair chance by regulation, would be the more efficient, the American public's duty to itself is to pre-

serve private management and cause government regulation to give it a fair chance.

Recent experience has demonstrated that the transportation facilities of this country have become inadequate. They are insufficient satisfactorily to move the available traffic, especially in eastern territory, despite the fact that in eastern territory the capacity of the railways in proportion to area and population is larger than anywhere else in the world. There have been no such congestions in the south and west as in the east; but even in those territories there is need of much additional mileage to enable them to support a larger population and to develop their natural resources. Both the intensive and the extensive development of the railways has greatly declined. A few years ago the average annual investment in them was about \$750,000,000. Before the war began it had declined to \$310,000,000. In 1916 it was only \$280,000,000. This decline of railway investment is the main cause of our present transportation plight.

Would Government Management Be Efficient?

The public must consider whether the expansion of our railway facilities is more likely to be adequate, and to be secured with reasonable economy, under private or under government management. There are certain incontrovertible facts which bear upon this question. One is that until the present restrictive policy of regulation was adopted the facilities of our railways were relatively greater, and were being increased faster, than those of any other railways in the world. Prior to the war our railways had almost six times as much freight carrying capacity in proportion to our population as those of Germany; and the railways of Germany had the greatest freight-carrying capacity in proportion to population of any system of government railways in the world. Our freight-carrying capacity was 8,662 tons per 10,000 inhabitants; that of Germany about 1,500 tons. We had car shortages, it is true; but they had relatively worse ones in Germany. Our railways actually moved almost five times as much freight traffic in proportion to our population as did those of Germany.

Not only have our railways, under private ownership, furnished larger facilities in proportion to population than those of other countries, but they have furnished them more economically.

Some people charge that our railways are over-capitalized. Some individual companies are, but the average capitalization of all, which is about \$66,500 a mile, is lower than the average cost of construction or capitalization of any other important system, government or private. The railways of Germany, most of which are government owned, have cost \$120,000 a mile. Those of New South Wales, Australia, which always have been owned by the government, which have been built and developed in a new country, and which have nowhere near the capacity per mile that ours have, have cost \$90,000 a mile.

When we turn to the operating results of our railways, to the rates they have made and to the wages they have paid, we find similar facts. Their average wage in 1913 was higher than that in any other country, except one of the Australian states. Between 1913 and 1916 the average railway wage in this country increased from \$757 to \$869; probably at present it is at least \$900, and increases now in contemplation probably will advance it to \$1,100. The average wage in Germany in 1913, the latest year for which the information is available, was \$409.

Similarly as to rates. Our average freight rate per ton per mile in 1913, 7.29 mills, was the lowest in any country except in India, where the wages paid are measured in cents, not dollars. The only European country in which the average was less than 12 mills was France, and most of the railways of France are privately managed. The average in Germany was 12½ mills. The answer is often made, when the average rate of Germany is compared with that of the United States, that the average haul is shorter there than here; and, of course, you always have two terminal expenses, whatever the length of the haul. Those who make this answer overlook the important fact that the very high wages paid in this country enter into terminal expenses as well as road expenses; and that, therefore, assuming that the same number of men are employed, it costs more in wages to operate one terminal in this country than to operate two in Germany.

Why Has Railway Development Stopped?

Until recent years, in spite of the high wages they paid, the low rates they charged and the service they provided, the managements of our railways were able to attract enough capital into the business to go on increasing their facilities. Why has the

development of facilities been almost stopped? There have been various causes, but the main one has been punitive and restrictive regulation. In 1916, when there was a sudden abnormal increase in business, the railways earned a large net return, but the tendency of net return for a long period had been downward, and this tendency was renewed at an accelerated pace in 1917. To return the railways to their owners after the war subject to the kind of regulation which has prevailed would be disastrous to both the companies and the country. Private ownership and management cannot be made a success from the standpoint either of the owners of the railways or of the public unless the owners and managers are given incentives and opportunities to increase the facilities of the railroads and to operate them efficiently.

Suppose, however, that our policy of regulation should be so altered as to afford reasonable incentives to investment and to efficient management. Would private management under such a policy probably be better or worse for the public than government management? There is nothing in the experience of our own or any other country on which to base a rational argument that government ownership and management would produce better results for the public than private ownership and management, under sane and fair regulation.

Even if you exclude our railways from consideration, a comparison of the results of private and government management in other countries argues strongly in favor of private management. Most of the railways of Germany are state managed, while most of those of France are privately managed. On any fair basis of comparison the private railways of France can be shown to be more efficiently operated than the state railways of Germany. Australia and Canada are the two greatest English-speaking possessions of the British Empire. In Australia government management has prevailed, while in Canada private management has preponderated. The private railways of Canada have made a record of efficient operation which far surpasses the record of any of the state railways of Australia.

It is only reasonable to assume that if private ownership and management are retained in this country, and our policy of regulation is so altered as to make investment in railways attractive, and to give the managements reasonable freedom of initiative

and action, the expansion of railway facilities will be revived on a large scale, and the roads will be as efficiently operated as ever. On the other hand, if government ownership is adopted, doubtless the government will recognize the need for investing large sums in new facilities. But will these facilities be provided with the wisdom and economy they would be under private management? Private management would, of course, aim to provide them where the new investment would earn the largest return, and that would be where there was the largest available or prospective traffic to be handled or developed, and where, therefore, the facilities were most needed. Is there not very great danger that, under government management, the places where the additional capital would be invested would be determined not by business but by political considerations? We have had a wealth of experience with expenditures for rivers and harbors, public buildings, and army and navy posts. Nobody would contend that the expenditures have been made regardless of political considerations and where they would do the most good.

Why Government Management Would Be Inefficient

Again, what reason is there for believing that under government management the railways would be operated with as much efficiency and economy as under private management? The efficiency with which any business is conducted depends mainly on the extent to which able men are attracted into it, are given positions whose importance is in proportion to their fitness, and are afforded incentives to do the best work of which they are capable. The railways of this country have almost two million employees and about twenty thousand officers. The officers get only $3\frac{1}{2}$ per cent of the billion and a half dollars paid in salaries and wages, while the employees get the other $96\frac{1}{2}$ per cent. But the efficiency with which the railways will be operated in future will depend mainly on the men who are put in those twenty thousand offices and on the incentives and opportunity they are given to organize and direct to the best of their ability the work of the two million employees.

Does any man familiar with the facts have any doubt as to whether, on the whole, the policy followed by the railways or that followed by our government departments has been better adapted to securing and putting into official positions the men

who are the best fitted to fill them? We have heard much recently about the alleged fancy salaries paid by the railways. As a matter of fact, the highest salaries paid by the railways are small compared with the incomes derived by many successful men from other lines of business and professional activity. It goes without saying, however, that under government ownership the salaries of the higher officers would be sharply reduced. Would the abolition of all the larger prizes in railway service increase the attractiveness of that service to men of ability and ambition? Excepting cabinet offices, with the great honor attaching to them, do we find many able and ambitious men struggling to secure appointments to offices in the government service, with the small salaries they pay? We do not; and if we adopt government ownership we shall see an exodus of men of ability out of the railroad business, rather than into it.

Even if men of ambition and ability did seek appointment and advancement solely on the ground of merit, they would not secure them. In all the government departments, except the army and navy, appointments and promotions to important offices are determined by politics, not by fitness. Government control of the railways as a measure of war has not resulted and probably will not result in political appointments, but that it would in time of peace all our experience indicates.

An answer often made to such arguments is that the postoffice department is efficiently managed. Where is the evidence? The postal department keeps its books so that nobody can tell what is the total cost of rendering its service, and it shows far less ability to meet new and difficult conditions than concerns under private management. I have spent the last five months in Washington. The great changes which have taken place there have imposed heavy new burdens on railway service, on telephone service and on postal service. Both the railway and the telephone service have met the new conditions far better than the postal service. The paper of which I am editor is printed in New York. I have never had a serious delay in getting a long distance call through to New York, and the railways run trains between New York and Washington in five hours, but recently it has been taking six days for the postal department to get the *Railway Age* from the postoffice in New York to our office in Washington. The first-class mail service, as well as the local service in Wash-

ington, have become so unreliable as almost to justify the charge that they have broken down. Congress is considering turning the telephone service in Washington over to the postal department. The postal service is so much worse than the telephone service that the proposal to turn the telephone service over to the postal department sounds like irony.

If, as seems certain, there would be under government ownership a deterioration of the official personnel of the railways and an impairment of the incentives of the officials to energetic and efficient work, the inevitable result would be a decline of the efficiency of management and operation. The adoption of improved machinery and better methods of operation, the increases in the amount of traffic handled per car, per train, per mile of track, and per employee, which have been the outstanding features of our railway operation, would be arrested. It was the large economies due to these things which long made it possible for our railways to pay ever increasing wages without advancing rates.

The Certainty of Political Interference

If there should be under government ownership a decline in the efficiency of management and operation, somebody would have to pay the bill. It would have to be paid either by railway employees in lower wages, or by travelers and shippers in higher rates, or by the public in taxes to defray a railway deficit. Who would determine what the wages, the rates and the taxes should be? It would have to be done by government officials, and in the last resort by Congress. But Congress is a political body. Inevitably, under normal conditions, it is influenced chiefly by political considerations. And so the unavoidable outcome would be that under government ownership in time of peace we should have the questions of what expenditures the railways should make for improvements and where they should be made, of the wages and conditions of work of their employees, of the appointments and promotions of their officers, of the freight and passenger rates they should charge, of who should pay the taxes to meet a railway deficit, if there was one, thrown into the maelstrom of politics. I do not say that any man or class of men would purposely throw these questions into politics. I simply say that under a democratic government such as ours, they in-

evitably would get into politics whether anybody wanted them to or not, and even though most people tried to prevent it.

The railways of this country employ one and three-quarter million men, to whom in 1916 they paid almost a billion and a half in wages; and an increase of \$350,000,000 in wages is now under consideration. The railways, under normal conditions, spend over a billion dollars annually for fuel, equipment and supplies, and the concerns which sell them fuel, equipment and supplies employ many hundreds of thousands of men. The effect which the introduction of politics into the management of the railways would have upon their efficiency would be bad enough for the country. How much worse for the country might be the throwing into politics of the governmental power to employ, promote or discharge millions of men, and to spend billions of dollars. You may say the government in carrying on the war is employing literally millions of men and spending billions of money. But the conditions of war, the motives and influences by which people are directed and controlled in time of war, are not those of peace.

Shall We Prussianize Our Government?

You frequently encounter the argument that Germany has made a success of government ownership of railways, and that we should adopt it and could make a success of it because Germany has. If you bar Germany from the discussion, the advocate of government ownership is rendered unable to find anywhere upon earth a country in which government ownership has had results affording any reasonable basis for contending that government management has been efficient. The argument from the experience of Germany proves too much. Accepting it at its full face value, what it proves is not that government management can be made a success everywhere, but that it can be made a success under an autocratic government. Now, doubtless by Prussianizing our government, we could fit it to do many things which it is not fit to do now. The characteristics of Prussia in the management of railways are the same as its characteristics in the management of many other things. The Prussian Minister of Public Works, who is the manager of the railways, is appointed by the Kaiser and is absolutely beyond the reach of public opinion or of Parliament. The Prussian Government forbids its railway employees to belong to labor unions, and ar-

bitrarily keeps wages low and freight rates high to get a large revenue for its military purposes. It treats the railways as primarily a part of its war machine and applies to their employees a military discipline. For obvious reasons there are no strikes or threats of strikes over there.

Do we want to Prussianize our government to fit it for Prussianizing our railways? I have never heard anybody say so. But if we are not going to Prussianize our government, we cannot Prussianize our railways, and if we are not going to Prussianize our railways, arguments drawn from the experience of Germany with government ownership have no place in the discussion of that subject in this country.

Private ownership of railways is a democratic policy. Government ownership is an undemocratic policy. In every leading country which is fighting under the leadership of the Kaiser—Germany, Austria-Hungary, Bulgaria, Turkey—government ownership prevails. In almost every leading country which is fighting against the Kaiser, including the United States, England, France and Canada, private ownership is preponderant. The natural policy for an autocratic state is to prevent its citizens from doing anything which the state can do. The appropriate policy for a democratic state is to do nothing which its citizens can do as well as or better than the state. If, as we are invited to do, we are going to embark upon a policy of state socialism in imitation of Germany, then let us set up an autocratic government in place of our democratic government, so that we can get the efficiency in our government necessary to enable it to manage our socialistic projects efficiently. If we are not going to set up an efficient autocracy, then let us leave our business enterprises in the hands of private concerns which can and will manage them efficiently.

Surely the fact is not without significance that the most autocratic government in the world has made the greatest success of government management of railways, and that the failure of government management in other countries has been almost in proportion to the degree of Democracy of their governments. One may sincerely and ardently believe that democracy is the best form of government to secure to the citizen the inalienable rights to life, liberty and the pursuit of happiness, and be willing to fight for that belief; one may have confidence that democracy can succeed in so regulating the relations between business con-

cerns and the public as well as between individuals and individual as to protect the rights and further the interests of all; and in spite of all this one may be convinced that so far as democratic government is as yet developed in most parts of the world, it is not a good form of government for managing commercial enterprises. Many go much further and fear that under government ownership in this country politics would so corrupt the railroads and the railroads would so corrupt politics as not only to destroy the efficiency of the railroads, but as to destroy democratic government itself. I ask you, is it worth while to take the enormous risks involved in a change to government ownership when past experience justifies the belief that under a wise and just system private ownership and management will continue to result in the provision of the most ample facilities and in the most efficient management of railways that can be found in the world?

WHAT GOVERNMENT OWNERSHIP MEANS¹

Government ownership of railroads would undoubtedly be immediately followed by the government ownership of the telegraph and telephone systems and express companies. We have already gone to great lengths in experiments with government ownership. We have a government owned railroad in Alaska; we have a government owned nitrate plant; we have a government owned armor plate plant; we are erecting two government owned ammunition plants, and in my judgment, without any authority of law; we have a government owned merchant marine; and we are so far committed to that policy that it is time for us to pause long enough to see whether we are drifting as a nation. I believe that the government ownership of all the methods of transportation and all the means of communication, adding 4,000,000 of people to the pay roll and converting them into federal employes, will ultimately result in the destruction of our form of government. Undoubtedly it means a letting down in efficiency, it means a lowering of all the standards of

¹ Address, by James E. Watson, United States Senator from Indiana, to the Senate. February 18, 1918. In the *Railway Review*. March 2, 1918, p. 321.

effectual workmanship, and it means a vastly increased outlay of money for a vastly inferior service. Everyone who is familiar with the operations of the Government knows these things to be true.

This means other millions working for the Government. It means the extension of civil service over this vast number of citizens; it means that the civil service system regardless of its merits in the past and of the high purpose of those who conceived and those who have since enforced it, is quite likely to break down, because of the power it will be required to exercise. It means the inescapable temptation to use this force as a political machine to raise the wages of all employes before election, and to use all the other means of control and methods of subordination known to the American people and sometimes used by politicians in the stress of a campaign. I do not believe we can stand that strain. I do not believe we should place such dangerous power in the hands of any man. I do not believe that we should confer such extreme authority over such a vast number of American citizens upon any individual. It is contrary to the very purpose of our theory of government.

If we take the first step along this socialist highway, who so wise as to prophesy what the last may be? Who so bold as to deny what the next will be? Unquestionably, we are face to face with the settlement of this stupendous problem, and we should not commit ourselves even to the first of its doctrines without preparing to accept them all or to fight them all. For if we inaugurate this program, in the end it will be forced upon the country, and, in my judgment, forced upon it to the destruction of our form of government.

If we have in this country the government ownership of railroads, telegraphs, telephones and express companies, immediately the demand will come to take over the mines. In fact, we are told that the administration is even now preparing to take charge of the mines and of the oil fields. This may now be, or may hereafter become necessary, as a war measure. But if the control of all these public utilities shall continue in the time of peace, as it is now proposed that the authority invested by this bill shall, there is the gravest danger that any president, backed by the power his position naturally gives him over the press and over the people; that any president, backed by all the tremendous

agencies he can use for the formation of public opinion and the vast influences he can bring to bear for the creation of public sentiment; might make himself the chief executive of this country so long as he chooses to do so, and that would ultimately mean the overthrow of the form of government created by the fathers and preserved to us by the countless sacrifices of succeeding generations.

GOVERNMENT OWNERSHIP IN FOREIGN COUNTRIES¹

A special hearing of the Newlands joint Congressional Committee on Interstate Commerce, which is investigating subjects pertaining to railway regulation and control, was held at Washington on Monday for the purpose of hearing a discussion on government ownership by W. M. Acworth, who has been in America for some time as a member of the royal commission appointed to report on the railway situation in Canada, and who is about to return to England. Mr Acworth gave a historical sketch of the experience of the principal countries that own or operate railways and their reasons for acquiring the lines. He said that it was probably safe to make the broad statement that two-thirds of the railway mileage of the world has been built; two-thirds of the railway capital of the world has been provided; and two-thirds of the current railway work of the world is done by private enterprise; and only the remaining third by national undertakings.

He then proceeded to a discussion of the lessons to be derived from foreign experience and their application to the situation in the United States and the United Kingdom, of which the following is an abstract:

The Lessons of Foreign Experience

Such is an outline history of the introduction of state ownership in the less important half of the railway world. What lessons has it to teach for the more important half, the United States and the United Kingdom? Evidently, in these two coun-

¹ By W. M. Acworth, English authority. In the *Railway Age Gazette*, May 18, 1917, p. 1033.

tries it will not be suggested that state ownership is necessary for political and military reasons. The consciousness of political unity needs here no artificial stimulus. The experience of England since the present war began has sufficiently demonstrated that a number of independent and often competing private companies can be welded together at a moment's notice into a homogeneous system, and operated from the moment when war is declared, with absolute success as an organic whole, under public control, on public account, for the public service.

Nor will it be suggested that in these two countries private enterprise has fallen short of meeting the public requirements. On the contrary, that England is adequately provided is admitted on all hands. And if, as is doubtless the case, the United States still need, and will continue to need, fresh railways built, past experience, which shows that in no other countries have railways been pushed so boldly in advance of population as in the states, gives every reason to suppose that private enterprise will be able and willing to provide them. And it may be added that the country which comes next in this respect to the United States—far in advance of the English colonies of Australasia, with their exclusively state systems, and of Russia or India, with their immixture of state ownership—is Argentina, also a country wholly developed, till quite recently, by private companies.

Railway history conclusively refutes the idea that state ownership promotes railway development. If we consider countries where the railways are already making a reasonable return on the capital, what do we find? Belgium has notoriously failed to keep its railways abreast of its rapidly growing trade. The Prussian government has consistently for a generation past forced the enormous coal and iron traffic of Lorraine, Luxemburg and Westphalia on to the waterways, by refusing to build the new lines necessary to cope with the traffic by land. American shippers sometimes complain of shortage of equipment. But these complaints in times of worst congestion are not more bitter than those which go up regularly every autumn from the coal operators of the Ruhr Revier, the most important coal field in Prussia. In Australia the managements of the government railways have boldly defended themselves in times of bad congestion by claiming that the railways cannot afford to keep sufficient equipment to cope with maximum demand. In the great Empire of

India, with a teeming population of 315,000,000 spread over an area nearly two-thirds that of the United States, a population which though very poor is also very industrious, there are only some 36,000 miles of railway. That more railways and improvements of existing railways are urgently needed, is admitted on all hands. Nor is it denied that they would pay their way. But the government refuses to allow private capital a free hand. A private company may build branches as feeders of the existing trunk lines on strictly regulated terms. But that is all. And yet the government itself can only find a few million pounds per annum for a work in which scores of millions could be profitably employed. The Dominion of South Africa, with a white population of a million and a quarter, has a state railway system of some 8,000 miles. In the much newer territory of Rhodesia alongside, company enterprise has already provided 2,000 miles of railway for the service of a white population of 32,000.

The reason is obvious. A railway company exists for a single end. If an extension offers reasonable prospect of financial success, and if capital can be raised on reasonable terms, a company will always build it. Even if success is problematical, ambition and the desire to forestall a possible intruder will usually turn the scale in favor of a forward policy. But a finance minister is in quite a different position. Calls upon him for money come in from a dozen different directions. The army, the navy, education, irrigation schemes, social betterment and fifty things more, all press their rival claims. The money is limited. New taxes do not conduce to popularity. The budget has to be made to balance and the railways go short like all the other claimants.

The experience of the last few years in the United States has, it must be admitted, shown that, under present conditions, private capital is not being found in sufficient quantity for extensions and improvements which are urgently necessary. And it has been argued therefore that the state will be compelled to come to the rescue by taking over the private undertakings bodily. But this is scarcely practical politics. To suppose that serious statesmen would, for this reason only, decide on a step so serious as railway nationalization, is to suppose the impossible. Taking over a quarter of a million miles of railway, with \$16,000,000,000 net capital and over 1,800,000 employes, may be a good thing or a bad thing; but it is undoubtedly a step, the

seriousness of which can hardly be exaggerated. To compare it in importance with the alternative of allowing the existing companies to raise their rates by an average of a mill per ton-mile, which would make all the difference between poverty and affluence would be almost farcical.

The argument for state ownership in the United States or the United Kingdom can therefore be based only on the claim that the substitution of Government for private ownership of the existing lines would, on the whole, secure better public service. A distinguished English authority, Sir George Gibb, has, in fact, put the question precisely on these lines. He has contended that, in Anglo-Saxon countries at least, it was entirely right that the construction and development of the railway system should be left to private enterprise. Private enterprise is, he thinks, bolder; companies are more flexible, more ready to take risks and to try experiments in new methods, than any state organization could be. Moreover—and the importance of the point will not be lost on anyone who remembers that the bulk of the American railways have at one time or other passed through a receiver's hands, and that some 40 per cent of their share capital receives no dividend—if a company improvidently or unwisely invests its capital in a non-paying proposition, while private individuals lose their money, the public is uninjured. Capital borrowed on credit of the state is a permanent burden on the country as a whole, whether or no it earns any net revenue to pay the interest. On the other hand once the system is created and substantially finished, Sir George Gibb, in the paper referred to, considered it an open question whether state or private ownership and management should be preferred.

Cost of Raising Capital

It is this question therefore that we have now to consider. It is commonly claimed, as one of the advantages on the side of the state, that it can raise capital more cheaply than any private company. And the claim is not without substance. But the advantage is not great. The market value of United States bonds cannot be compared with that of first class railway mortgage bonds, because of the fictitious value attached to the former for bankers' purposes. But in England over a series of years—though here, too, consols have to some extent had an artificial

value—the interest on first class railway debentures has averaged, perhaps half of 1 per cent above the interest obtainable on government obligations. At the moment of writing, while the English government is borrowing on short term bonds at the rate of 6 per cent, first class railway debentures are still selling on the basis of less than 5 per cent yield. And it is only the first charge securities of railway companies which can fairly be compared with the government stocks; for the income return on junior securities, more especially common stock, includes a more or less considerable allowance for insurance against risk. Averaging the return on all capital invested in a successful private company, it would undoubtedly be considerably higher than the return paid to the purchasers of an equal amount of government railway stock. But the government stock would unquestionably include a considerable amount of capital spent on railways not producing any, or only an inadequate income, which capital, as has already been said, would have been in the case of a private company, either written down in market valuation, or, it may be written off entirely.

Economy in Use of Capital

Further, though a saving of perhaps half of 1 per cent in interest is not unimportant when the capital is reckoned in billions of dollars, it may be more than compensated for by a greater proportional increase in the capital itself. Is this likely to be the case? It is certainly the common belief of 99 business men out of a hundred, both in America and in England, that the government gets less value for its money than a private trader. So far as it is possible to compare one country as a whole with another, it certainly looks as if this belief were justified in railway experience. The railroads of the United States were capitalized in 1915 (deducting inter-corporate ownership) at \$66,447 per mile. The state railroads of New South Wales and Victoria were capitalized at \$77,253 and \$65,774 per mile respectively. It must be admitted that the Australian roads, whose construction engineers had been brought up to regard English standards as universally applicable, are more substantially and expensively built than many of the Western roads of the United States. On the other hand, the American figure includes the trunk-line railroads of the East, with a standard of construction and a mass of

equipment to which the Australian roads can offer no analogy. On the whole, it is safe to say two things. If an experienced railway man came to America for the first time, and made an exhaustive examination of the United States railroads, he would marvel when told that so magnificent a machine had been built up at a capital cost of only \$66,447 per mile. If an English or an American business man, fortified by the expert's opinion, were asked whether he thought his own government could have carried out the work as cheaply, it is equally certain what his answer would be. Summing up then the subject of capital cost, it would appear that, whereas on the one hand the state can obtain its capital somewhat cheaper, on the other hand private enterprise makes each dollar of capital go further. And the advantage and the disadvantage may fairly be set off, the one against the other.

Quality and Cost of Service

The vital question, however, is not concerned with construction and capital cost, but with the day-to-day working of the actual existing system. Will the public on the whole get better services or lower rates, or possibly both these advantages? On this question there is a mass of accumulated information that may help to an answer. But the difficulty of making a fair comparison between one country and another is exceedingly great. National customs differ widely. To give one striking instance. The average American railway charges its passengers two cents a mile, and admittedly makes no profit. The East Indian Railway charges four mills, and makes a handsome profit, because the Bengali ryot is content to travel under conditions of speed and accommodation and convenient frequency of service which imply reductions in operating costs more than counterbalancing the five-fold reduction of charge. And even the four mills rate is a much larger tax on the income of the ryot than the two-cent rate is upon that of the American laborer. What shall be said? Would it be reasonable to say that, all things considered, the passenger fares in America are really lower than those in Bengal, in spite of the fact that in Bengal a man can travel five miles at the price of one mile in the states? Must it not be acknowledged that, where conditions are absolutely different, one cannot really compare, but can only contrast?

If comparisons are to be of value, they must be made where conditions are, if not similar—that we shall never find—at least as similar as may be. This much seems clear. Given two countries in which the standard of living and the purchasing power of money are substantially the same, and where the quality of railway service is substantially the same also, the country in which the rates charged are the lower is the country best served by its railways. If a country, where the purchasing power of money is low, obtains the same quality of service at a substantially lower rate than is charged in countries where the purchasing power of money is high, where, in other words, ordinary commodities are cheap, then surely that country has an exceptionally efficient railway service. Tried by this test, how does the United States stand?

It is a matter of common knowledge that the freight rates of the United States are out and away lower than those of any country with which comparison can reasonably be made. The figures of the average receipts per ton-mile for Germany and France are nearly double those for America, 1.37 and 1.30 cents per ton-mile respectively as against 0.738 cents. And all the other countries of Western Europe, except Belgium, are higher than France. The Belgian rate is 1.13 cents. As we get towards the east, rates fall. In Russia, the average is 0.94, in Japan 0.87, and finally in India, it gets down to 0.74 cents, which is practically the same as the American figure.

The reason why Oriental rates are low is obvious. Roughly half the cost of railway operation is direct labor cost. And in Japan a railway employee earns a dime, and in India a nickel, where in America he earns a dollar. Why then are not the rates still lower? Because it needs many Orientals to do the work of one American, with his efficient methods and his labor-saving appliances. To give one instance, railway embankments in India were till quite recently, and probably are still, constructed by gangs of coolies running to and fro with small baskets of earth upon their heads.

But let us leave India aside. Once more it is a contrast and not a comparison. Confining ourselves to Europe, we may say broadly that it costs as much to move a ton one mile in Europe as to move it two miles in America. And when all allowances have been made for circumstances tending to make European

business more expensive to handle—short hauls, more diversified loads, higher cost of coal, and so forth—the 100 per cent. difference in rate is so great, that it seems impossible to doubt that a large part of it must be due to the greater efficiency of the American railway.

Private Railways Lead in Invention and Improvements

While the American companies have boldly revolutionized their machinery and methods of carriage, the Prussian state has clung to old machinery and old methods. The huge engines and freight cars used in America today could never have run on the rails or crossed the bridges as they existed in 1880. So the American companies have laid ever heavier and heavier rails, and have rebuilt their bridges, often more than once. The Prussian State is content to put forward, as a sufficient reason for adhering to the old methods, the fact that track and bridges are not strong enough to carry the heavier equipment. This example is typical. In all the history of railway development, it has been the private companies that have led the way; the state systems that have brought up the rear. It would be difficult to point to a single important invention or improvement, the introduction of which the world owes to a state railway.¹ England shares with America the credit of having invented the locomotive. England first rolled steel rails but America was not long behind. England first introduced the block system of signaling; while to America is mainly due the later development of automatic appliances. There are two types of power brakes on the world's railways. The Westinghouse brake was invented in America, the vacuum brake in England. The automatic coupler is wholly American. So are the sleeping car and the dining car. Shunting by gravity, which accounts for a saving of millions of dollars a year, was invented in England, but has been mainly developed in America. Brunel, on the Great Western of England, first taught the world what express trains meant. And 40 years later, the English companies in the historic "Race to Edinburg" in 1888 gave a new interpretation of the term. America promptly replied with the "Empire State Express," and bettered the instruction with the "Atlantic City Flyers." The French companies, too, took up the challenge, and put on trains from Paris

¹ Possibly the Schmit locomotive superheater might be claimed by the German railways as an important improvement of which the credit is theirs.

to Calais, and to the Belgian, German and Spanish frontiers, that could hold their own with anything that England and America had to show. And meanwhile the International Expresses of Prussia and Belgium jogged contentedly behind. It is true that in these two countries the track was not fit for high speeds. Nor was it at the outset in France or America. But it was possible to make it so—at least where it was in the hands of a private company.

Railroading is a progressive science. New ideas lead to new inventions; imply new plant, new methods. And this means the spending of much new capital to be recouped by larger economies later on. The state official mistrusts ideas, pours cold water on new inventions, grudges new expenditure. No one questions the ability of the German people. German manufacturers, German merchants, German bankers have taught the business world a good deal in recent years. German railway men have written many books, some of them valuable; but in practical operation they have taught the railway world nothing. Why? Is it because they are state officials?

Civil Service Rules and Promotion by Merit

Railway management, on its main sides of policy, operation and traffic, is essentially a commercial business, requiring commercial training and commercial aptitude. The railwayman, if he is to serve his customers and his shareholders properly, must look ahead, plan boldly for the future, and not fear to take risks. His mind must be alert to recognize and use every new technical improvement, that so he may give the best possible service at the minimum possible expense. He must be quick to observe the course of trade, the changes of demand, the potentialities of new markets and new sources of supply, and to adjust his tariffs accordingly. Above all, he must keep abreast of his work, however arduous, even though it means working all day and half the night, and double tides on Sunday. If he fails—at least in the employ of a private company—he goes; and a better man takes his place.

Can we expect these qualities from a state official? Let the Italian Commission answer. It is true they wrote 35 years ago, but human nature has not greatly altered in the interval. "On a state railway system, the personnel would be chosen according to

civil service rules. Seniority would count more than merit or special qualifications. . . . There would be bureaucratic dilatoriness, incompatible with railway service. This applies specially to the executive officers, who need to have, in the highest degree, industrial energy, initiative in planning improvements, commercial intelligence essential in controlling the various classes of expenditure; who have to encourage traffic, improve service, maintain discipline, and so forth. The chief officers and their staff must have a personal interest to stimulate them, and a high sense of responsibility to encourage them to perform their duty. And for men like these, the state would substitute officials with no personal interest in the operating results. Further, the government employee is, as a rule, worse paid and subject to less severe discipline than men in private employment, and consequently, he does less work.

"When the operation of the Upper Italian Railways was temporarily taken over by the state, only a short time elapsed before the discipline, energy and promptitude of the staff, which had been excellent, broke down, and the service became abominably bad. The general rule is that government employees do less work; consequently more men have to be employed; and the wages bill accordingly goes up."

That on this last point, the commissioners were true prophets, the Italian experience since 1909, which has been recorded already, sufficiently shows. As for "industrial energy," "initiative in improvements" and "commercial intelligence," let the Prussian history of unchanged methods and cast-iron tariffs testify. But there is a more important point than these. There is general agreement, both in America and England, that, to avoid the worse evil of political patronage, appointments in the public service must be made by civil service methods. This means appointment by an examination mainly literary, at an early age; a life tenure except in cases of gross incompetence; and promotion mainly by seniority. Will any human being claim that American railroads would have achieved their magnificent record of technical progress, of rates steadily reduced in face of a steady rise, not only of railroad wages, but of prices of almost all other necessities of life, if the management of the railroads had been in the hands of men originally selected by an examination 40 years before, who had since risen to the top, not as the result

of conspicuous competence, but by sheer seniority? And would the men who are now at the head of the railways have stopped in the government service, had they entered it as young men, if they had only had the prospects of promotion and compensation which government service affords?

Possible Abuses of Private Ownership

At this stage it may be fairly said "Granted that state railway systems, like all other human institutions, are far from perfect, what about the abuses of private ownership?" And the point is a fair one. It might well be that the abuses of private ownership are so great that state ownership implies, at least, the lesser of two evils. How do the facts stand?

In the old days in England, there was a saying of an official of the Board of Trade,—afterwards well known as a director of one of the great English railways and president of the Grand Trunk Railroad of Canada, Sir Henry Tyler,—which became famous: "If the state does not control the railways, the railways will control the state." And 30 or 40 years ago, when the railway directors were strongly entrenched in a House of Commons elected on a very restricted suffrage, the phrase perhaps represented something more than a mere rhetorical exaggeration. In reference to England as it is today, the idea is only laughable. The railways are absolutely powerless to resist public opinion. Five and twenty years ago, the House of Commons threw into the waste paper basket the original schedules of maximum rates—on the faith of which private capitalists had embarked five billion dollars in constructing railways. After an inquiry lasting over 10 years, they formally enacted new schedules of maximum rates which the companies "might lawfully charge and make." The companies were so ill-advised as to take Parliament at its word. And they proceeded in many instances to "charge and make" accordingly new rates which implied considerable advances on the scale then in force. Shippers rose in revolt and refused to pay. In the very next session, Parliament deprived the companies of the power which it had given, and enacted that thenceforward no railway company should increase any rate to which one single shipper objected, unless the company could prove affirmatively in a court of justice that the increase of rate was justified by increased cost of doing the business. Similarly

in America. There was a time—it will hardly be denied by anyone today—when the great railroads had inordinate powers, and those powers were concentrated in the hands of a single man. Not only might he abuse them for private interest, but in any case the powers were despotic. And democracies will not tolerate despots, even if benevolent. But the president-despot—benevolent or otherwise—has long been dead. And his day returns not. Serious critics, both in England and America, have questioned whether private capital will continue to invest in railways, if the state continues to interfere so drastically both with operation and with rates. But no one is heard seriously to assert that Parliament and Congress lack the power to make their will effective, whatever the railroads may say or do.

A main argument put forward in favor of the nationalization of railways in Prussia was that the tariff system of the private companies was honeycombed with rebates, and that rebates were inevitable under private ownership. If this latter statement were true, it would be sufficient justification for sweeping away private ownership, without more. But it is not true. If, after 70 years of private ownership in France, no suggestion has ever been heard that rebates are there given, it is fairly safe to say that they have not been given. In England there were undoubtedly special favors given to certain freighters in the very early days, not probably from corrupt motives, but merely as a matter of commercial custom. To big customers, and keen bargainers rate concessions always had been given by the carriers, whether by road or by canal, and at the outset there seemed no reason why railroads should not follow the example. But as long ago as 1854, in words that were practically copied in the original United States act to regulate commerce 33 years later, the English Parliament enacted that rates should, under the same circumstances, be the same to all; and that, if circumstances were different, the difference in rate should be proportionate to the difference in circumstance. And thereupon, rebates disappeared from English railway history. "It is remarkable"—the words are those of a House of Commons committee reporting in 1882 after an exhaustive investigation—"that no witnesses have appeared to complain of preferences given to individuals by railway companies as acts of private favor or partiality, such as were more or less frequent in the years before the act of 1854." One still sees,

from time to time, fines inflicted upon American railroad companies for offences of this nature. But in almost every case, the transgression had occurred some years before the infliction of the fine. It is safe to say that nobody in America today believes either that secret rebates exist to an appreciable extent, or that the railroad officials desire to revive the practice of giving them.

Somewhat analogous to direct rebates are concessions given to traders and other persons, whom it is desired to influence, by liberal payment of claims for loss and damage of freight, by under-classification, free transportation and so forth. In France, with a non-competitive system such practices have apparently never existed. In England they have never cut much figure; and as long ago as 1902, the establishment of a Joint Claims Committee by the companies themselves, put an end to such abuses in this respect as did exist. Free passes in England have never been an abuse, of which the best proof is that they still remain unregulated by law, and a manager may any day privately give a free pass to whom he pleases. That free transportation and the payment of bogus claims were serious abuses on the American railroads not so many years ago is undeniable. No one doubts that they are practically eradicated today. And, after all, the abuse of free transportation is not confined to private railroads. Not very many years ago, the Melbourne Age, the leading paper in the Australian state of Victoria, published a list, occupying eleven and a half closely printed columns, of free passes granted by the state railways to the relations and friends and dependents of members of Parliament.

State Railways Not Usually Profitable

Our history has then reached this stage. In the two countries where the railways are still wholly in private ownership, the United States, and the United Kingdom, nationalization cannot be justified on the ground of lack of private enterprise. Nor is it necessary to avoid abuses; for those abuses can be either prevented or cured by adequate state regulation and supervision. Further, it does not appear that the state is likely to build railways cheaper. Still less, that it will surpass private companies in efficiency of management, and will therefore have available

more net revenue to be applied either to improvement of service or reduction of rates in the country as a whole.

With the exception of the South African Dominion—whose railways are not, however, important, and which owe their moderate success to the fact that the great mining community of Johannesburg, importing almost everything it consumes, and accustomed to pay gold miners' prices, is many hundreds of miles from the sea—Prussia is the only country where the state system shows a substantial profit after payment of operating expenses and interest on capital. And this fortunate position Prussia owes to two things. It bought the railways at a most opportune moment, just before the great industrial and commercial development that has made modern Germany; and the government has been powerful enough to maintain the scale of rates, as we have seen, practically unaltered over a long series of years. Belgium roughly makes both ends meet. Switzerland the same. The smaller German states and the Australasian colonies, speaking broadly over a series of years, have to make up some part of their interest charges out of general taxation. Austria, Italy, and France on its state railways, as we have seen, produce deplorable financial results.

Is State Management More Equitable?

It is, however, claimed that the state would apportion its favors with a more equal hand; would level the backward parts of the country up to the standard of the better developed; and adjust rates and fares more equitably. These were promises made by the Prussian government when they took over the railways. And so far as the first half of the promise, the extension of the railroads into poor districts, is concerned, unquestionably it has been fulfilled. But the reason is to be found, not in the beneficence of the State, so much as in the fact that the only power in Prussia that counts besides the throne, is that of the agrarian party, the Junkers. Partly owing to their hereditary influence over the executive government, and partly to the fact that the agricultural districts are enormously over-represented in the Prussian parliament, they have succeeded in getting a good share of the surplus revenues from the manufacturing districts devoted to developing their own estates. On the other hand, as has already been mentioned, when it comes to tariffs, no country

has gone as far as Prussia in giving advantage to the big shipper over the small man.

In Australia undoubtedly railroads have been built in backward districts which private enterprise would never have touched. But if a railroad, after being open for traffic for ten or a dozen years, still hardly does more than pay its operating expenses, it is safe to say that it is not an undertaking which would have been entered upon at all by a prudent management, had it been free to spend its capital where it would do most good to the public as a whole. In other words, the reason why such a line was built was political pressure. And that such lines are common enough all over Australia is sufficiently well known. Indeed the report of the Victorian State Railways for 1907 gives a list of seven branches, with an aggregate length of 46 miles, constructed at a cost of \$1,883,336, which were closed for traffic at various dates between 1898 and 1904, and abandoned altogether because gross receipts failed even to cover operating expenses.

The claim that the state will adjust rates and fares more equitably is more difficult to deal with. The famous Prussian Finance Minister von Miquel asserted categorically that the only possible policy for a state system was to adopt a rigid tariff uniform over the whole country. And that is in fact, the Prussian system of today. For 500 miles the rate is 10 times that for 50 miles. Whether this is equitable is another question. It certainly does not cost the railway ten times as much to do the business. Nor does it seem to be treating the shipper in accordance with the canon of taxation which says that the end to be aimed at is equality of sacrifice by the taxpayer. But be that as it may, while such a policy is possible for Prussia, with only a small seaboard, and where the government owns, not only the railways, but the canals, it is unthinkable in England or in America. Imagine an English government charging from London to Edinburgh 10 times as much as for the first 40 miles out of London. The only result would be to drive all the traffic to the coasting steamers. As for America the thing is still more impossible.

National Railways in a Democratic State

We come now to a more important point, a point which may probably be said to be of more importance than all the others put together. Prussia is undoubtedly the most successful in-

stance of state railway management. Reasons have been given already for thinking that the Prussian success, achieved under uniquely favorable circumstances, is not so much to boast of after all. But let it be admitted for the sake of argument that the success is as brilliant as it appears to the imagination of the most enthusiastic German professor. The point cannot be too much insisted on that the success of the Prussian autocracy is no argument for similar success in the hands of English or American democracies.

A great American, who has lately passed over the majority, Charles Francis Adams, put the matter nearly 40 years ago in words that have so often been quoted that they have become classic:

"In applying results drawn from the experience of one country to problems which present themselves in another, the difference of social and political habit and education should ever be borne in mind. Because in the countries of continental Europe the state can and does hold close relations, amounting even to ownership, with the railroads, it does not follow that the same course could be successfully pursued in England or in America. The former nations are by political habit administrative, the latter are parliamentary; in other words, France and Germany are essentially executive in their governmental systems, while England and America are legislative. Now the executive may design, construct, or operate a railroad; the legislative never can. A country, therefore, with a weak or unstable executive, or a crude and imperfect civil service, should accept with caution results achieved under a government of bureaus."

A railroad is a great business concern. And as every business man knows, a business concern, if it is to prosper, must have a single directing mind at the head. Under an autocratic system, the head is the minister of railways, ultimately responsible to the monarch, and to him alone. He may consult his customers, passengers and shippers, listen to their grievances and welcome their suggestions—the Prussian government has an admirably organized system of district and national councils for this very object. But he alone decides. The king of Prussia is as really the head of the railroads as he is the head of the army. Between a railway chief in this position and a minister in a democratic country, changing every few years as his party goes in or out of power,

liable at any moment to be out-voted if he refuses a concession that a substantial section of members of the legislature combine to demand, no comparison is possible. "The executive may design, construct, or operate a railroad." And this is what happens in Prussia. "The legislative never can," and in democratic countries it is the legislative branch of the government which not only decides policy but dictates always in main outline, often down to the detail of a particular appointment or a special rate, how the policy shall be carried out.

It may be objected that in every country, whatever be the form of government, the state runs the post office; and in almost every country the telegraphs, if not the telephones also. If it can manage these, why not also railroads? The answer is that between these two classes of business there is no analogy. The post office is a purely executive business, with no commercial side to it. Uniform rates, two cents or a penny or whatever the figure be, equal for all distances, are accepted as a matter of course. The amount is so small that nobody objects. If the charge for a letter were, not two cents but a dollar, people would fast enough be found to protest that it was unreasonable to charge the same from Wall street to Central Park as from Boston to San Francisco. A business such as this can be managed well enough by a civil service organization. It is essentially a matter of routine and operating efficiency. There may be, in fact there usually is, political interference in reference to appointments and promotions. And the staff no doubt avail themselves of their votes to improve their wages and working conditions. But this, though a pretty serious matter, is not so vitally important as the difficulties on the side of commercial management.

Whether a new railroad shall be built is not a matter where precedents and fixed rules can decide. It can only be decided by a man able to bring to bear on the question a trained mind and ripe judgment, after taking into account all the factors of probable traffic, probable cost, and whether the limited amount of capital available would not be better employed elsewhere, perhaps in something like double tracking, or the construction of a new classification yard, which does not appear directly to benefit any single member of the public. It is hard enough for the best man, left free to exercise his unbiased judgment, to decide

such questions rightly. Can it be expected that they will be decided rightly by a minister responsible to a democratic legislature, each member of which, naturally and rightly, makes the best case he can for his own constituents, while he is quite ignorant, even if not careless, of the interests, not only of his neighbors' constituency, but of the public at large? The answer is written large in railway history.

WAR AS A SOCIALOGICAL LABORATORY¹

England has now had a long period of State Socialism at work. Its consequences have been brought under careful observation. The good results and the bad have been sifted. At a time when the United States, with the passage of bills by Congress to enable the Government to bring under its power more and more of the nation's transportation and production and finance, is about to launch out further into the deep of State Socialism, it behooves us to take note of the experience of England. Nobody there denies the necessity of what was done. The war has been a harsh taskmaster. It has compelled the wholesale "swallowing of formulas." It has driven the Government on to one gigantic task after another. All this was inevitable, but the effects have not been altogether as expected, nor have they been wholly pleasant. But they have been most instructive.

Various reports have been laid before the English public. One of them was the work of a special sub-committee of the House of Commons, representing all parties. Another was by the Liverpool Chamber of Commerce. The Steamship Owners' Association produced a third. Through them all there runs one general conviction. It is that, while the war made necessary the seizure by the Government of many new functions, and while the work undertaken has been done with a kind of hard efficiency, it has been done wastefully, and with the sacrifice or imperilling of many things needful for the successful carrying on of great business. These English observers see only disaster in the continued rule of the Government clerk. Swarms of Government agents have thrust aside the men who had given their lives to acquiring special knowledge of the problems to be

¹ *Nation*, March 7, 1918, p. 253.

solved. The merchant class has been superseded, with the result that "their knowledge of markets, of products, and of values has been lost to the country." The whole machinery of British foreign trade has been dislocated. Business talent, rare and painfully acquired, has been ignored by the crowding Government inspectors. The steamship men assert that "shipping in the hands of the state is the servant of the departments, commissioners, and committees, and the master of none, and waste which has not to be paid for directly in cash is ignored by them one and all." Moreover, the discontent and rebellion descend from the highly trained and experienced merchants and shippers and engineers to the working classes. There is surprisingly unanimous testimony that the laborers subject to the system dislike it intensely. Their wages have been raised, and all that, but they feel that they are under an unaccustomed and grinding tyranny. One typical report comes from the miners in South Wales, where, it is stated, "the only emotion which assuages the acute and deplorable differences between employers and employees is a growing common hatred of state control."

These tests in the English sociological laboratory are not, of course, conclusive, but they are highly suggestive. One thing they make clear beyond a peradventure is that State Socialism is no panacea for all the ills that society's flesh is heir to. It is not a magic solvent for all difficulties. Where it removes one old one it may easily create two that are new. But the special lesson for the United States which the experience of England points is the need of proceeding with the inevitable extension of Government control with caution and with intelligence. Every care should be taken to leave intact the technical staffs of the private corporations brought under the power of the Government. There is such a thing as control without undue meddling, and this should be the type aimed at.

STATE OWNERSHIP FAILS IN SOUTH AMERICA¹

All the larger republics of South America at some time have tried government ownership of railways. Most of them have abandoned the policy as a failure. Why, is shown in an illumi-

¹ *Railway Age Gazette*, July 13, 1917, p. 75.

nating analysis of South American railways by Lionel Wiener, now appearing in the Railway Gazette of London, which is summarized as follows by the Bureau of Railway News and Statistics.

"One and all have shown the same results, owing mainly to the creeping in of politics in their management; too many employees that it has been deemed unadvisable to discharge; bad service and rolling stock that careless management has allowed to decay; construction of expensive unnecessary lines; costly exploitation, yielding an annual deficit."

Probably no quarter of the world so well as South America enables close comparison between state and private operation under similar conditions, sometimes the comparison being possible on one and the same railway. The Sobral Railway of Brazil, opened by the government in 1883, operated at a steady deficit up to October 31, 1897, when it was taken over by a private company. From the date of the transfer it has shown a handsome profit, the constant deficit having been turned to a profit even in the two months of 1897 remaining after the transfer. The Porto Alegre Railway of Brazil was operated by the government from 1883 to 1891 at a deficit. It was then taken over by a company which by 1904 had reduced the working percentage to 75.42 per cent.

Today the Central of Brazil is the principal Brazilian railway under government operation. For every \$100 of its revenues the expense of operation of this line rose from \$96.70 in 1907 to \$136.90 in 1911, dropping to \$126.20 in 1912. In 1908, while this government railway was spending \$105.50 to earn \$100 gross revenues, the three neighboring private railways spent respectively \$45.90, 54.20 and 56.30 for each \$100 revenue. The army of unnecessary employees is blamed for the state railway's persistent and growing deficits. "Such a system as the Central of Brazil is an excellent electioneering instrument in the hands of government," says the author, "and despite the annual deficit, not likely to be relinquished."

Chili has had a similar experience. Operating expenses of the Chilian State Railways rose from \$50 for each \$100 revenues in 1884 to \$164 for each \$100 revenues in 1907, dropping then to \$123 in 1911. Between the same years the Paulista Railway, the leading private company, increased its expenditures from \$41 to

\$44 for each \$100 revenues, in one year reaching \$60, the highest attained, and in two other years falling to \$31. In 1907 and 1910 the Chilean state system contrasted as follows with the private railways in the amount spent for each \$100 gross revenues:

	1910	1907
State Railways	\$121	\$163
Tacna Arica	60	68
Iquique	47	47
Antofogasta	67	64
Taltal	54	61
Curanilahue	55	55
Paulista	45	41

Peru's record is even worse. After starting a number of costly lines the government defaulted and handed the system over for operation by the Peruvian Corporation.

Argentina, the only other South American country retaining any considerable mileage under government operation, contemplates leasing the greater portion to a private company. The northern lines cover 3,129 miles of the entire 3,482 miles government operated. A great portion of the country served is rich in sugar, maize, wine, etc., and "economically worked, there is little doubt these systems should yield fair returns. Yet their deficit has been almost continuous, which contrasts strongly with most other lines. Proposals for leasing them have been put forward and the adoption of some such step would be eminently sound."

Individual provinces of Argentina have had identical experiences. Of three provinces which have tried government ownership, two abandoned the system after a few years of deficits and handed the lines over to private companies.

SHIPPERS ARE HOSTILE TO GOVERNMENT OWNERSHIP¹

Undoubtedly the most significant feature of the annual convention of the National Industrial Traffic League, held at Cincinnati, Ohio, on November 20 and 21, was the unanimity of sentiment in opposition to government operation of the railroads. The expression of opinion on this subject had been generally suspended during the period of the war for patriotic reasons, but

¹ Railway Age. November 29, 1918. p. 963.

as the reason for the acquisition of the transportation system by the government has now passed, the first meeting of the League since the conclusion of hostilities was the signal for a frank discussion of federal control and the future of the railroads. It was the sense of the convention that the next year or two will constitute a crucial period in railway history and that the League will have to be on the alert to prevent developments inimical to the interests of shippers and to assist effectively in bringing about a solution of the transportation problem that will prove satisfactory to the public. A resolution offered by the executive committee and unanimously adopted puts the League on record as unqualifiedly opposed to government operation or ownership and provides for the appointment of a special committee to promote legislation necessary to protect the interests of the League if the railroads are returned to their owners. The resolution reads as follows:

Whereas, under present legislation the railroads will be returned to private operation within 21 months after the close of the war, and,

Whereas, the National Industrial Traffic League is on record as opposing government ownership of the railroads of the country, and;

Whereas, the executive committee is of the opinion that operation of the railroads by their owners is preferable to government operation, and,

Whereas, the executive committee is convinced that before the railroads are returned to their owners for operation additional legislation is necessary in their interests, as well as for the protection of the public,

Therefore, we recommend that the president of the League appoint a special committee of nine members, to consider such additional legislation and measures as may be deemed necessary to carry out the spirit and purpose of this recommendation, said committee to report to the executive committee at an early date.

AGAINST GOVERNMENT OWNERSHIP¹

Chicago, Ill., January—The directory of the National Lumber Manufacturers has put itself on record as in favor of the return of the railroads to private ownership. At a recent meeting of the board, presided over by J. H. Kirby, of Houston, Tex., president of the association, the directors declared themselves in readiness to support any adequate measure which may be placed before Congress, looking to the return of the railroads to their former owners under proper safeguards. In the discussion it developed that manufacturers generally throughout all sections of the country were much in favor of a speedy settle-

¹ From the Information Press-sheet issued by the Association, January, 1919.

ment of the problem of mail transportation, and that most of them believe that government control or ownership is not desirable at this time.

OPPOSE PUBLIC OWNERSHIP¹

The Investment Bankers Association of America, it is announced, is to have a Railroad Committee, headed by Allen B. Forbes, of Harris, Forbes & Co., which will oppose the permanent public ownership or operation of railroads as inimical to the best interests of the United States. This committee, which has just been appointed by President William G. Baker, Jr., of the Investment Bankers Association, is not to be committed to any of the so-called plans for solving the railroad problem, but will oppose Government ownership.

The committee comes into being as the result of a resolution passed at the convention of the Association last December. It includes in its personnel some of the best known bankers in the country and it is possible that some suggestions for legislation may be advanced by its members.

The committee is to be composed of the following bankers:

Allen B. Forbes, Otto H. Kahn, W. H. Porter, Charles H. Sabin, Frank A. Vanderlip, of New York; John E. Oldham and Robert Winsor of Boston; George H. Frazier, of Philadelphia; A. H. S. Post, of Baltimore; H. C. McEldowney, of Pittsburgh; Warren S. Hayden, of Cleveland; James B. Forgan and George M. Reynolds, of Chicago; R. S. Hecht, of New Orleans; Breck-enridge Jones, of St. Louis, and Frank B. Anderson, of San Francisco.

¹ New York Times, February 20, 1919.

FOR ROADS' RETURN ON A NEW BASIS²

Washington, Feb. 19.—Regulation of all phases of railroad operation rather than Government ownership of the rail properties was strongly urged upon the Senate Interstate Commerce

² Abstract of statement before the Interstate Commerce Committee of the United States Senate, February 19, 1919. From the New York Times, February 20, 1919.

Committee today in a statement submitted by Howard Elliott, President and Chairman of the Executive Committee of the Northern Pacific Railway Company, Chairman of the Committee on Intercorporate Relations of the New York, New Haven & Hartford Railroad, and member of the Executive Committee of the Burlington and several other roads.

The testimony of Mr. Elliott was considered especially important because of his thirty-nine years of railroad experience, twenty-three years on the Burlington, which put him in touch with the development of the country and railroad practice of the Middle West, eleven years on the Northern Pacific and five years with the New Haven system, in the complicated New England transportation system. Mr. Elliott told the committee that his experience convinced him of these three things:

First—Government ownership, management and operation of the American railroads is not for the best interests of the nation.

Second—Private ownership, with wise, energetic, and honest management and operation under suitable, thorough, and protective regulation, will produce the best results for the country.

Third—Regulation should be so arranged and directed as to preserve and encourage the initiative of the American citizen to be prompt and responsive to changing conditions, but, at the same time, to provide checks to prevent any unfair and dishonest practices by owners and managers, and also to prevent repressive, unreasonable and conflicting action by regulatory bodies.

Wants Unified Regulations

On the subject of Federal regulation, Mr. Elliott said:

"To bring this about there must be some method devised for reasonable Federal supervision and regulation of wages and working conditions, and such regulations should eventually receive the final approval from the same power that is responsible for the rates of fare and freight charged by the transportation agencies, so that the question of income with which to pay will be considered at the same time and by the same final deciding power as the outgo to be paid.

"The power of final decision as to rates and practices must rest with the Federal Government, and when it is to the interest of the nation as a whole to have a given basis of rates, or to adopt a given practice, rules and regulations of States, counties,

and municipalities must give way and must be subordinated to Federal power.

"Any benefits resulting from the management of the Director General should be retained where it is reasonably clear that such benefits are of a permanent character and in the interest of the public in peace times.

"Most, if not all, railroad managers have reached the conclusion that what is known as the 'divisional system' of operation is better than the 'departmental.' In other words, that some one must be in the driver's seat on a small enough unit of property to control the ordinary maintenance and operation subject to a central directing authority as to general methods, standards of work, maintenance, and accounts.

"I believe very strongly that a new basis of regulation can be worked out within the twenty-one months' period, and if the management and operation of the properties is returned to the Directors of each company, subject to the orders of the Director General, there will be an improved esprit de corps, less unrest, and greater efficiency will be obtained; that all of the plans about unification, economy, etc., that the central administration may wish to carry out can be made effective by the corporate organizations promptly."

Mr. Elliott concluded his statement with an expression of his views as to the future. He asserted his belief that in a growing country like the United States any system of internal transportation should provide for:

1. Inducement for the individual citizen to engage in the business by permitting reasonable rewards for brains, energy, industry, and the capital employed, substantially equal to the same kind of rewards in other forms of human effort.
2. Constant developments of the transportation machine so as to keep it at all times ahead of the needs of the growing country.
3. Adoption of improved and improving methods of carrying on the business so as to obtain the maximum of efficiency and economy.
4. Reasonable and regulated competition and co-operation for the purpose of producing development of different sections of the country and improvement in the methods employed by the transportation agents serving the country.

5. Continuity of service so that the transportation machine will always be in a position to serve the country unless prevented by act of God or by war.

6. Regulation by the United States through suitable Government agencies, which regulation must be of such a form as

(a) To attract capital and permit a steady improvement in, and expansion of, the facilities;

(b) To protect the interests of the public using the railroads and promote the comfort, convenience, and safety of that public;

(c) To protect the officers and employes who maintain and operate the road and to work constantly in the direction of improving working and living conditions; and to provide some method of adjustment of any controversies about wages and working conditions;

(d) To protect the interests of those who have invested money in the securities representing the railroads.

DANIEL WILLARD'S SOLUTION OF THE RAILROAD PROBLEM¹

Mr. Willard submitted five suggestions for present legislation by Congress, saying these were all that would be necessary at this time. He asked Congress to:

1. Provide a definite rule for ratemaking as related to capital by fixing an adequate percentage ratio of railway operating income to the combined property investment account of the railroads as a whole.

2. Affirmatively authorize the railroads to combine their properties and operations, subject to governmental approval, as and when shown to be desirable in the public interest.

3. Affirmatively authorize the carriers to issue securities for construction, equipment, and enlargement of their properties, and for the refunding of obligations, subject to exclusive supervision of the Federal Commission.

¹ Abstract of statement before the Interstate Commerce Committee of the United States Senate, February 18, 1919. From the New York Times, February 19, 1919.

4. Provide for the extension, for a reasonable period, of the indebtedness of the carriers for advances and loans made by any governmental agency during Federal control.

5. Either create the new agencies which have been suggested or enlarge and extend the existing regulating agencies so that matters requiring Governmental determination may be promptly disposed of.

Issue was taken by Mr. Willard with statements by the former and present Director Generals in their arguments for Government ownership.

"I am, under certain conditions," he said, "in full accord with the Director General when he urges the desirability of unified control, but unified control, like all things else of real value, must be paid for in some manner, and the price is the sacrifice of competition. Competition of service has probably done more than any other one thing to raise the standard of equipment and performance of American railroads, and as a policy it should not be lightly given up, and in no event should it be abandoned unless something else of equal or greater value be obtained in its place.

Private Unified Control

"I do not, however, share the views that unified control, when desirable, cannot be had under private ownership with governmental regulation. That a condition finally developed which the voluntary organization created by the railroads was unable to deal with promptly and effectively, must be admitted, but we have the direct statement from the Director General that he also would have been unable to deal effectively with the same situation had it not been for the fact that he was authorized by law to ignore the restrictions which applied to the railroads under private operation.

"It has frequently been asserted that the railroads under private ownership had broken down, and that it became necessary on that account for the Government to take possession and assume control of the physical properties. I cannot agree with those who hold that opinion, nor can I find anything in the record of performance of the carriers under private control and operation, or in the record of performance during twelve months of Federal control and operation that gives support to that asser-

tion. On the contrary the record of actual performance under Federal control of the same properties, with almost exactly the same facilities and with substantially the same official staff, is the best and most convincing evidence that the railways, both as to physical properties and personnel, had not only not broken down, but were in fact most efficient agencies of transportation.

"Private ownership and operation have not failed. Regulation as a Government policy has not failed. It has been clearly shown, however, that a system of regulation designed for peace-time conditions might not, and in fact did not, properly function in time of war, and, as it was necessary to act promptly, the Government assumed control of the railroads and proceeded to run them as if there were no restrictive laws and regulations."

Discusses the Plumb Plan

Mr. Willard said he agreed with that aspect of the Plumb plan which holds "that the best results will be obtained when men are actuated by hope of reward and not by fear of punishment." Describing himself as having entered the railroad service as an unskilled laborer when only 18 years old, Mr. Willard declared that "in no line of gainful endeavor has there been greater opportunity for advancement and reward than in the railroad service." He held that private ownership and operation would preserve the opportunities for advancement, while Government ownership and control would destroy them.

"Hundreds of boys," he told the committee, "have entered the railroad service at the very bottom of the ladder, and, without wealth or influence, have risen, by virtue of personal application, skill, and merit, to positions of prominence, influence, and honor, and while, because of the semi-public character of the service, railroad officers have not the same opportunities to acquire wealth that are offered in other lines of endeavor, the opportunity which such a career has offered in the past for constructive service has made railroading, as a career, attractive."

Mr. Willard said that he did not consider that, as a whole, the Plumb plan would allow either "possible or probable" efficiency of operation. He declared that Mr. Plumb's scheme, which has the support of the brotherhoods, "has all the objections which, in my mind, are associated with Government ownership and control."

GOVERNMENT OWNERSHIP OF RAILROADS AND WAR TAXATION¹

It seems to me, one of the duties of business men is to inform themselves accurately and carefully on this subject, so as to be ready to take their due and legitimate part in shaping public opinion, and indeed to start on that task now, before public opinion, one-sidedly informed and fed of set purpose with adroitly colored statements of half truths, crystallizes into definite judgment.

My concern is not for the stock and bond holders. They will, I have no doubt, be properly and fairly taken care of in case the Government were definitely to acquire the railroads. Indeed, it may well be, that from the standpoint of their selfish interests, a reasonable guarantee or other fixed compensation by the Government would be preferable to the financial risks and uncertainties under private railroad operation in the new and untried era which we shall enter after the war. I know, indeed, that not a few large holders of railroad securities take this view and therefore have this preference.

Nor do I speak as one who believes that the railroad situation can be restored just as it was before the war. The function, responsibility and obligation of the railroads as a whole are primarily to serve the interests and economic requirements of the nation. The disjointed operation of the railroads, each one considering merely its own system (and being under the law practically prevented from doing otherwise) will, I am sure, not be permitted again.

The relinquishment of certain features of our existing legislation, the addition of others, a more clearly defined and purposeful relationship of the nation to the railroads, involving amongst other things possibly some financial interest of the Government in the results of railroad operations, are certain to come from our experiences under Government operation and from a fresh study of the subject, in case the railroads, as I hope, are returned to private management.

¹ Address, by Otto H. Kahn, member of the banking firm of Kuhn, Loeb and Co., before the National Industrial Conference Board, New York, October 10, 1918.

Personally I believe that in its underlying principle, the system gradually evolved in America but never as yet given a fair chance for adequate translation into practical execution, is an almost ideal one. If preserves for the country, in the conduct of its railroads, the inestimable advantage of private initiative, efficiency, resourcefulness and financial responsibility, while at the same time through governmental regulation and supervision it emphasizes the semi-public character and duties of railroads, protects the community's rights and just claims and guards against those evils and excesses of unrestrained individualism which experience has indicated.

It is, I am profoundly convinced, a far better system than government ownership of railroads, which, wherever tested, has proved its inferiority except, to an extent, in the Germany on which the Prussian Junker planted his heel and of which he made a scourge and a horrible example to the world; and the very reasons which have made state railways measurably successful in *that* Germany are the reasons which would make government ownership and operation in America a menace to our free institutions, a detriment to our racial characteristics and a grave economic disservice.

HOW SHALL WE OPERATE OUR RAILWAYS¹

What about Government ownership and operation? I am very frank to say I am not satisfied with this proposed remedy, and I will indicate my reasons. I do not oppose it on the ground that the Government has no right in the premises.

The public has an interest in transportation, for which the roads exist. They can no longer be looked upon as property privately owned, to be operated purely for the profit of the owners without regard to the rights of the public. Hence the public has an inherent right to demand service. Its chief interest is service economically and efficiently rendered. By the first I mean freedom from waste or exorbitant charge through extravagance or other forms of waste. By the latter I mean accommodation, convenience of travel, courtesy in dealing,

¹ Excerpt from remarks, by Hon. Simeon D. Fess of Ohio in the House of Representatives, January 11, 1919. From the Congressional Record, January 13, 1919, p. 1459. [unbound.]

expedition in execution, accuracy, and security of service against losses, so as to become reliable to the extent that all transportation business can safely be dependable. These items are what the public pays for and has a right to demand. They serve as the basis for the right of public regulation or control, or both.

As to economy, of course, no man of judgment will say the Government is ever economical. It is the most wasteful and slovenly extravagant in its business operations known to the business world.

While Government work is usually done on a contract basis, no one pretends to hold the Government to the terms of its contracts, either in time of completion of the work or in the amount to be paid for it. If more time is needed, it is granted. If more money is required, Congress is appealed to and votes the increase without batting an eye.

A private contract usually fixes the time with a forfeiture penalty, and always fixes the amount to be paid. But a Government contract may name the sum as a matter of form, and when it is exhausted and Congress is asked for an additional appropriation it is granted as a matter of course upon the ground that it is the Government doing its own work and should not be exacting in its demands.

We hear it on every hand: "Why not grant it; who will be hurt? Uncle Sam is paying the bills; he won't feel it."

This sense of an easy responsibility is displayed upon every hand, where the Government is a party to the contract. Just now, Members of Congress and the public are exercised over the report of the Hog Island investigation, which shows that the contract price, at first fixed at \$21,000,000, then raised to \$27,000,000 will reach \$61,000,000. Here is a discrepancy of \$34,000,000 or, expressed in per cent, an outlay which is 300 per cent over the contract price.

The enormity is not in the fact of this discrepancy but in the ease with which the public will at once dismiss it with the excuse that it is for the Government and why complain. If the outlay was made, it put the money in circulation, we are told. This lack of the sense of economy which naturally and inevitably excuses wastefulness which under private contract would lead to immediate prosecution, is the one outstanding indictment against Government ownership and operation where it can be done through

private enterprise. The present rail deficit, in spite of the unusual increase in freight and passenger rates, is only an item to be expected and, of course, repeated so long as the Government operates these utilities. Only recently the Postmaster General recommended \$2,185,000 appropriation to purchase aeroplanes for mail service, at the time the country had numerous planes in its possession with no particular use for them. The only explanation forthcoming was: First, the planes already built were not so adaptable for mail purposes, and, secondly, it would cause some confusion between the War Department and the Post Office Department if the planes ordered by the Government for the War Department were used by the Post Office Department. While the House refused the appropriation, after Major LaGuardia refuted the first ground, it shows the ease with which departments ask for public funds, upon the basis our Treasury is inexhaustible. The significance lies not in the needs and possibilities of air mail service but the lack of a sense of economy in Government work which would permit a department head to ask for over \$2,000,000 for aeroplanes when the Government had hundreds of them already without other use for them and, according to a practical flier, well adapted for mail use. It is a suggestion of the economy we may expect in the various new utilities of telegraph, cable, and phone lines taken over by this department, which, bad as it is, doubtless is no worse than many other Government departments.

Now, as to the efficiency of Government operation. It may be unfair, I am free to admit, to judge future efficiency by what the traveling and shipping public have had to experience since Government operation has been in vogue. It will not be disputed that the traveling public has never been so shabbily treated. Such qualities of service as accomodation, courteous treatment, expedition in sale of tickets, handling of baggage, and care of travel are lost arts. The present system is intolerable, with little hope of correction so long as Government operation continues. Whose fault it is is not the question. No one feels responsible. The absence of any personal responsibility is best displayed by the general attitude on all sides apparent and expressed in the statement, "It is the Government that runs the roads, and we are the Government." If a shipment is lost or articles are stolen, who is it that feels responsible for the loss and who will trace

the goods? To inquiries the invariable answer comes, "We do not know," with an air that "We do not care." If the case is reported, to whom will the report be made, and what greater interest will be found when report is made?

The air of "the Government is doing it and we are the Government" is displayed on all hands. The readiness with which our Government avoids responsibility by shunting it to the employers increases this air of popular ownership and "if you do not like it make the most of it" spirit so prevalent to-day.

The servility of the Government in the railway brotherhood demand for 20 per cent increase in 1916 has not only increased this spirit of public disregard but has induced a pronounced sentiment for Government ownership among labor circles.

That event clearly convinced labor leaders that politicians can be more easily dealt with than employers.

This item introduces the greatest objection to Government ownership and operation. When applied to the railway business it makes possible a political influence the power of which can not be fully understood.

The 2,000,000 employees represent at least 5,000,000 people; if we include all the people affiliated with the roads, they will reach at least 20,000,000 people, or about one-fifth of our total population. Such interests, if concentrated, could determine any policy they might set out to make. This danger is too apparent to need any comment.

Take it all in all, I am hopeful we may find a way to retain the private initiative in industry, not only for the basis of rational progress but also for the public good through economy and efficiency, the real basis of prosperity.

There is now and then heard a proposal of public ownership and private operation; that is, let the Government own the roads, but operate them through companies to whom the roads are leased upon contract. I am not able to indorse this plan as workable.

My own opinion is that neither complete private ownership nor Government ownership is the wise way. Both of these methods have some virtues. We must find a way which will include the good of the two but avoid the dangers of both. This is the problem. Under Government operation the single-system idea, with common terminals, union ticket offices, employment of

short hauls, no matter over which line the traffic goes, are all valuable changes inaugurated by Government operation, which in the interest of the public should be retained. These changes might have been made under private ownership had the laws permitted them.

Consequently our legislation should permit the roads to pool their properties. This would necessitate amendment, if not repeal, of the Sherman law so far as it applies to the right of the railways to combine into one system under government control. The growing demands upon transportation with the tremendous growth of the country will demand new developments of rail facilities, which will entail great outlay of money. It is stated that these betterments demand billions of dollars. This will demand ready market for rail securities. This market will depend upon the prospect of the railway enterprise as a successful business. On the one hand, the properties must be secure for the sake of security holders, and, on the other hand, the public must be secured against fictitious values in waterstock. Hence the Government must be allowed to regulate the issuance of securities and at the same time permit such profit to security holders as to secure a ready market for the bonds. These are simple business principles. It has been suggested that under regulation the holder might be guaranteed a fixed profit of, say, 5 to 7 per cent on his securities. The regulatory feature necessitates Government supervision of some sort to guarantee needed improvements to meet the needs of transportation, without injury to the public either by fictitious values in watered stock or undue charges on the public in the rates of traffic.

To do this there must be recognized a governmental regulatory function, but it must not reach strangulation, as in the case of some of the rulings of the Interstate Commerce Commission prior to the war. One principle is clear.

There must be guaranteed by law that the power which fixes the expense of operation must also have authority to fix the income to insure that the two will have a definite business relation. Congress can not fix the outgo by determining the cost of operation and the Interstate Commerce Commission the income from rates. These matters must be left to the business administration, not to political bodies such as Congress or even a commission too responsive to the whims of politicians.

The roads must not be made the football of politics. Where the roads broke down before was not because of private ownership so much as through mistakes in Government regulation. On behalf of the public the matter of operating expenses became a political issue, in which contractual relations were not regarded. This must be avoided.

The most feasible way to secure the importance of private ownership and also Government operation without embracing the dangers incident to both would be private ownership under Government control. This is the order of the day in the industrial world. It is frequently worded "concentration and control." The business trend is concentration, and it should be permitted if under proper control.

This will permit the roads to be returned to the owners, to be operated under rigid governmental control.

It would necessitate the right of combination of the systems into one or into regional systems, to be operated as a single system. This would demand the virtual repeal of the Sherman law.

It would also necessitate a national railway administration board, appointed by the President, by and with the advice and consent of the Senate, to have supervision over transportation in manner like the Federal Reserve Board has over the banking enterprise. The great extent of the American railway field and the wide diversity of interests will necessitate local or regional boards. These regional boards should be articulated with the national board, so as to insure the maximum service demanded by localities. The salary should be enough to invite the country's best talents in the railway world. The tenure should prevent the possibility of the board becoming a partisan body.

These regional divisions need not be geographical, but rather industrial, to follow the lines of traffic, which would be fairly well marked by the great trunk systems, which were built up on routes connecting great centers of industry.

The function of the national administration board would supersede the Interstate Commerce Commission, which in that case can be abolished or absorbed.

This scheme would preserve to the system the assurance of economic and efficient service by the stimulus of a profitable enterprise conducted by the owner of the property whose every inducement would be the best and cheapest service and at the same

time insure the public against a predatory interest by permitting Government control on behalf of the public against any undue advantage for private gain. It would also guarantee needed improvements and betterments by a ready market for securities of a system permitted under the law to operate on a safe profit. Security holders would have the best guaranty of safe investment of their earnings. The cost to the public would be determined by the cost of operation, both items of which are in the same authority under regulation of the Government. It would at once remove the business from partisan politics as far as a public utility can be divorced from its pernicious intermeddling.

To make the scheme workable, the most specific way would be to require the roads to incorporate under the authority of the Nation. This would exempt them from State control in the degree that they were interstate in character. While this will provoke some opposition, there should be a way to meet the State objection. If the railway business is to be national, as it surely long ago became, the larger and general interests must prevail over the local and State interests.

The owners must relinquish the claims that the roads are private property and as such will be run for the profit of the owner. That stage is long past.

The brotherhoods, and those connected with them, must also relinquish the claim that the roads are run chiefly to employ men at good wages. Both of these parties must concede. Their interests must not be antagonistic; they must be cooperative.

The roads, although privately owned, with profit as the chief incentive of the ownership from the employer's standpoint, and run by union labor with high wages as the chief incentive from the employee's standpoint, are and must be considered in the light of public interest. The public or third party in the deal must not only be considered, but will in the end become the chief factor in the determination of the policy. This feature alone gives Congress the right to pass rail legislation.

This feature also justifies the Government in finding a way to adjust the differences between the employees when they can not agree among themselves.

While the Government may not wish to become a party to either side of the dispute, it must see to it that the roads shall continue to render service. Lockouts and strikes should be

obviated. Compulsory arbitration is not a popular remedy; however, it is urged as a last resort rather than permit injury to the public.

The conciliation method by a governmental board is growing in favor. If this is resorted to it should be made legal, and great care must be exercised in the composition of the board so as to insure the square deal for all parties.

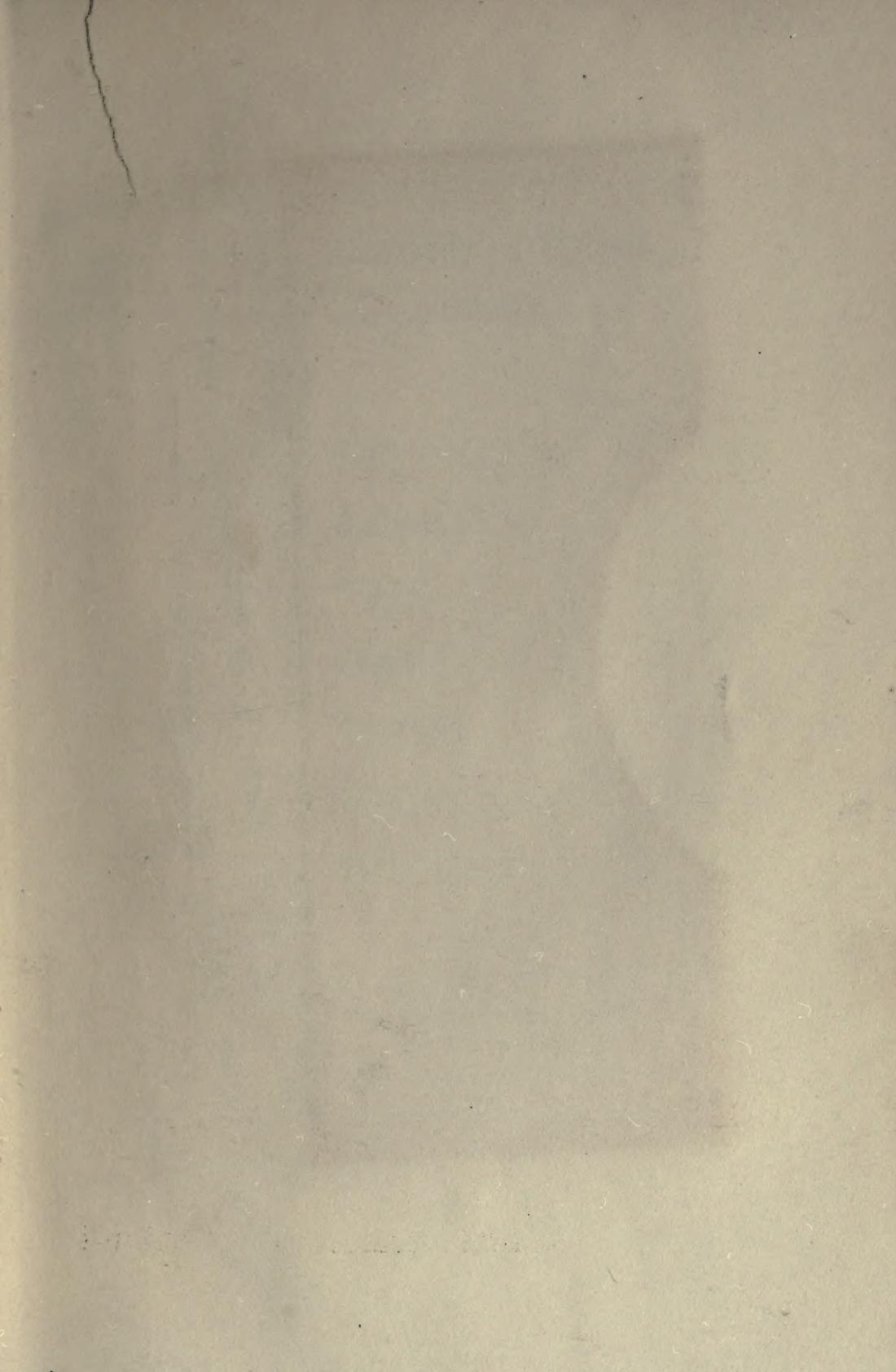
While the Government is concerned in maintaining the rights of property and should see to it that these rights are inevitable, and also concerned in the welfare of the man who toils and should see to it that his rights are inviolable, yet its larger function is to see to it that the rights of the public are respected. This is the real function of government. It should not engage as a competitor of business when it can be done by the citizens. It should have its chief concern in its ability to keep open to the citizen of the Republic an equal opportunity to make the most out of his talents, be he employer or employee.

Open the way to the citizen. That means individual initiative, which spells progress. Avoid interference except where it is necessary to do so in order to keep open the door of opportunity or on behalf of the public. Regulation becomes necessary, but it must not be tantamount to strangulation.

It is perfectly apparent that Government ownership of railroads is quite consistent with an autocracy like the former German system, where the State counts for everything and the people for nothing. Even in the case of German Government-owned roads, the service could not match in efficiency our system.

On the other hand, if we are ready to accept the socialist program and thus eliminate private ownership and individual initiative in order to socialize all industry, Government ownership and operation of the roads is the normal thing to do. This policy is consistent with both autocracy and socialism.

But if we mean to maintain our system of government we will respect the element of private ownership, individual initiative, and personal responsibility in the interest of progress and economic efficiency by permitting concentration, over which in the interest of the public at large we must exercise a rigid Government control. It seems to me the solution of the railway problem lies in this direction.



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